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TO IDENTIFY PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
RURAL ECONOMY AND FAMILY FARMING

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

TO IDENTIFY PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA

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July 13, 1988:
- Morning session 167

TO IDENTIFY PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA

WEDNESDAY, JUNE 29, 1988

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL ECONOMY
AND FAMILY FARMING,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:40 a.m., in room SR-428A, Russell Senate Office Building, Hon. Max Baucus (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. The hearing will come to order.

The purpose of this hearing is to explore rural economic development and try to find ways the Federal Government can help encourage it.

The drought has focused attention on the problems of the rural economy perhaps better than most any other event could.

The problems of rural America run very deep. Rural America has been hit with a triple whammy.

The first element is economic. It is what Peter Drucker calls "uncoupling". Natural resources made up a smaller and smaller proportion of overall product costs. Markets are shrinking and prices are gradually declining.

The second element is deregulation. Cheap air fares may be great for heavily populated areas. But airline deregulation has devastated rural areas that depended on an integrated national transportation system.

The third element is the agricultural crisis. We have already lost over 200,000 jobs in agriculture. Another million farmers could be driven under by the drought.

The result of all this is a division of prosperity. The *Wall Street Journal* may continue to trumpet the recovery, but we now have a Swiss cheese economy. There is a glittering growth in urban areas, especially on the coast, but there are gaping holes in between.

The impact can be seen in population statistics. In 1987, over 750,000 people left rural America for better opportunities elsewhere. That is almost five times the rate of out-migration that we experienced during the 1960s. Our kids are giving up and moving on.

Some people just shrug. It sure is sad, they say. But the economic decline of rural America results from the operation of free market forces. There is nothing that we can do or should be done about it. That is callous. It is incorrect. It is inconsistent with our basic American values.

Americans have always understood that we are in this together. "E pluribus unum" is our national motto, one out of many. From the Northwest Ordinance of 1787, through Teddy Roosevelt's Country Life Commission, through the Rural Electrification Program, through President Kennedy's Rural Area Development Program, we have had steady bipartisan commitment to help rural America share in national prosperity. As FDR said 56 years ago, "our economy cannot survive if it is half boom and half bust."

In the long run, rural America needs economic diversity. New industries that don't depend upon the boom and bust cycle, value-added manufacturing, high-tech, mid-tech, information services.

In this hearing, I hope to identify steps that we can take to attract these new industries to rural America. The primary impetus must come from the private sector, but the Federal and State governments also have an important role. And as I see it, we have to work together to eliminate five barriers to economic diversification in rural America.

The first barrier is an inadequate transportation network. Airlines are just as important to economic development today as railroads and the interstate highway system were not too many years ago. We built railroads across the length and breadth of this country, knowing that it would create a unified national economy that benefits everyone. The same with the highway program. The interstate highway system doesn't just run between New York and Boston. It's a unified national system.

We treat air service differently, as if it's a luxury. But if you are trying to attract a high-tech company to Bozeman, MT, regular and reliable air service is not a luxury, it's a necessity.

The second barrier is an inadequate telecommunications system. Computers create the possibility for rural areas to overcome this distance barrier. But our current telecommunications system isn't compatible with sophisticated computer and high-tech development.

The third barrier is access to capital. Business located in rural areas are considered riskier than businesses in other areas. This makes capital hard to come by. In addition, lenders in rural areas probably are not as up with the times and future development and future trends as they could be. We must find a way to make capital available to the entrepreneurs who are ready to take a shot at creating a new company in a rural area.

Fourth, rural America lacks access to the latest technologies to stay competitive. Rural America's forthcoming shift into the "information age" requires such access.

Finally, rural America lacks the education and retraining programs necessary to meet the demands of our new economy. Efforts are beginning, but given the scale of the shift that must occur across rural America, these efforts are not enough.

Throughout this hearing, I will be asking three questions. What are the prospects for diversifying rural America's economies? What tools does rural America need to make those prospects reality? And what is the Federal Government's role in providing those tools?

So, it seems we have a lot of challenging work ahead of us. I look forward to the testimony of the witnesses we have before us.

Our first panel will consist of Mr. John Domenech, who is the president and CEO of Skyland Scientific Services in Bozeman, MT—John, good to have you here—as well as Philip Burgess, who is executive director of U.S. West, Englewood, CO. Gentlemen, why don't you proceed? Please tell us what you think some of the answers are. Bill, why don't you follow John.

STATEMENT OF JOHN S. DOMENECH, PRESIDENT AND CEO, SKYLAND SCIENTIFIC SERVICES, INC., BOZEMAN, MT

Mr. **Domenech**. Thank you, Mr. Chairman.

Mr. Chairman, Members of the Subcommittee on Rural Economy and Family Farming, thank you for the opportunity to present my views on the major problems in rural America and the effect on economic development. My name is John Domenech, and I'm president and chief executive officer of Skyland Scientific Services.

Skyland is a high technology information company. Our service market is the pharmaceutical and biotechnology industries located on the east and west coast of the United States. We gather data at a client's facility, add value to that data by processing it into a meaningful form, thereby causing the import of dollars into rural America. Two years ago, we had 35 employees and $1 million in assets. Today we have 63 people and over $3 million in assets. We are a classic example of a high technology information-based service company.

Mr. Chairman, in yesterday's economy, rural America's standard of living seemed to be second to none. Rural America's economy was based on industries such as mining, agriculture, and forest products. In the 1950s, approximately 250,000 people per year left the rural America and headed for the cities. That was yesterday's economy. Today we are squarely into a changed world economy. It is not changing as some would suggest, but rather as Peter Drucker of the Fairmont Graduate School in California says, it changed.

And it changed for several reasons, one of which is the fact that raw material economy became uncoupled from the industrial economy. This is indicated by the fact that the ratio of prices of manufactured goods are no longer reflective of rural America's resource based products. For example, the Global 2000 report predicted that food demand and prices would double the end of this century. Instead, as Barbara Insel pointed out in the spring of 1985 edition of Foreign Affairs, we are awash in grain, and the prices are reflective of that glut.

The rural economy of today has based its standard of living on its natural resources, and because of that, in 1987 alone over 1 million people left the countryside. They headed for the information and knowledge-based industries of metropolitan America.

Distinguished Members of this Subcommittee, I do not believe that rural America has a realistic future in view of today's changed economy unless we can base some of the information technology in the countryside. I believe that the best way to do this is by refocusing the thrust in some Federal programs in existence today, such as the Small Business Innovative Research Program and the Community Development Block Grant Program.

For example, the SBIR Program encourages information-based technology and I think with great success. Yet, one State, California, accounts for about one-quarter of all SBIR awards. Add Massachusetts and a couple of the beltway bandits, such as Maryland and Virginia, and these four States alone account for over one-half of all the awards given each year. If this is, indeed, a fact, how can rural America possible participate in this program?

Why not simply require that the Small Business Innovative Research Program applicants be rurally based? If the applicants are legitimate small businesses trying to break into today's economy, they will figure a way to open satellite offices and conduct the actual research in the countryside. I believe this is a small step and one that will go far toward pushing rural American cities into the age of high technology.

Another Federal program for consideration is the Community Development Block Grant. Community development block grants go a long way toward spurring economic activity in rural America. But it has been my experience that the approved ones tend to focus on noninformation-based manufacturing, which by definition are low income producing jobs. This program too can be minimally altered to encourage information-based technology applicants from the countryside to apply.

These are only partial solutions, however. Migration to the cities, farm foreclosures, rural America's logging per capita increase of 4 percent as compared to 13 percent in metropolitan America since 1979, is some of the evidence of a severe economic depression which we cannot get out of because of one thing: a crumbling rural infrastructure. For example, there seems to be adequate capital available for economic expansion, but it is not invested in rural America because a disproportionate share of the 1,500 to 2,000 banks on the financially troubled list are located in the countryside. Those banks that do remain oftentimes do not have the brainpower to assess the vitality of a robotic system that allows manufacturing production to increase while significantly lowering the need for blue color jobs. They do not have the brainpower to assess the fact that semoconductor manufacturing costs are about 70 percent knowledge with only 12 percent in labor costs.

Yes, Mr. Chairman, you're right. There is plenty of capital available, but it is not accessible in rural America, and banks need to know that it isn't. The smart banks will move now and reap the benefits later.

Transportation to the information centers, and therefore the marketplace, is available, but for a high price. Our business relies exclusively on air transportation. Because the prices of nondiscounted tickets are getting out of control, we have elected to open satellite offices in Raleigh, Boston, and Chicago. We have done this so that our competitors, who are located on the east coast, do not gain the advantage. As every frequent traveler knows, the hoopla surrounding low, $99 ticket prices is just that.

I believe the most significant problem facing rural America's economic development today, one that is more unyielding than problems of capital, telecommunications, transportation or health care, is education and its quality. Education in rural America is good, but I see it slipping behind metropolitan America because of its better access to the information market. Better wages, coupled with a more dynamic research environment, are draining professorial resources from rural America's universities. For example, in today's changed economy there are many centers of excellence, most of which are located in metropolitan America. The point is that it takes a critical mass to make a center such as this happen, and if one wants to reprogram genes at a biotechnology institute to get more nutrition from a carrot, a few hundred thousand dollars will barely cover technical help, much less the expensive and time consuming research of the professors.

Of the $60 billion spent by the Federal Government on research and development, I dare say that a disproportionate share finds its home in metropolitan America. Fundamentally, the best and the brightest of today's professors are scattered throughout the Nation, but will this remain so as we approach the 21st century? Michael Blumenthal, now chairman and CEO of Unisys Corp. has said that, "Information has become the key to modern economic activity, as basic a resource today as capital, land, and labor." The drain of information from rural America is occurring. We see it in ever-increasing numbers of college graduates migrating to the information-based jobs in the cities and their professors are following closely behind. I think we can address this problem by squarely encouraging Federal investment in rural institutions through better funding of rural research centers, by encouraging private investment in rural businesses through tax advantages and allowing rural businesses to reinvest their wealth in further development without significant tax consequences.

Communication in rural America is the bright spot in the infrastructure, and it will be good as long as the giants keep allocating hard-earned dollars to a system upgrade. Our company's ability to compete by using facsimile machines and the ability to send huge amounts of data over the telephone system has enabled us to compete from rural America. But there is a red flag. As people leave rural areas, the fair-share cost of delivery must escalate. Although deregulation of the phone system is good, it could possibly become too expensive to support rural-based, high technology companies, or judicial decisions could force the giants not to reinvest even though they want to.

The problems faced by rural America are complex. The solutions are even more elusive. Respectfully, however, the common denominator of the problems and the solutions will be in deficit reductions. Until that problem is attacked, anything we do with respect to rural America will be symptomatic treatment. Artificially high real interest rates, combined with a dismal savings record by Americans continue to encourage cheap foreign dollar investments into the technology areas in which America should be concentrating as a matter of long-term national policy. There is always the danger of macromanagement by Congress. Today, however, the problems seem to be out of control and require that something is done.

I believe the economy, technology, and America's reliance on a different set of values have changed and that the Department of

Agriculture's ability to suggest solutions have not kept up with the pace. With this in mind, I would suggest increased privatization of the jurisdiction for rural economic development. Think tank centers in rural America with regional thrusts advising Congress on what to do is a rational way to provide solutions. Private enterprise can compete for the job with skilled specialists, while knowing that if they don't keep up with the changing times, there will be another private firm willing to take its place.

Mr. Chairman, distinguished Members of the Subcommittee on Rural Economy and Family Farming, the problems facing rural America today are severe. At its roots are deficit spending, coupled with a continuing reliance on basic industry such as minerals, forest, and agricultural products in a changed economy. The solution lies in redefining national policies and how best to implement those policies. At a minimum, stronger quality education allowing continuing access to greater and more complex information will help rural America meet tomorrow's challenge today.

Thank you, Mr. Chairman, for the opportunity to present my views on this subject.

Senator BAUCUS. Thank you, Mr. Domenech.

We are joined here by the very able, active and aggressive Senator from New York, who has a deep interest in not only urban development in New York City, but also rural development in other parts of New York. Senator D'Amato.

STATEMENT OF HON. ALFONSE M. D'AMATO, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator D'AMATO. Mr. Chairman, let me commend you for holding these hearings. I'm going to ask at this time that my statement be submitted for the record as if read in its entirety. Unfortunately, I have a Banking Committee hearing at the same time, but I commend you for attempting to focus in on the unique problems of rural America.

Many times, Mr. Chairman, people think of New York as simply New York City. It is not an accurate portrayal. Indeed, 8 million people live north and west of the area called Westchester, NY, and it's a great, vibrant part of our State. And it has many characteristics in our rural farming communities, in particular, that the witnesses have and will be testifying to and about.

Indeed, we see a flight of young people, those who we educate, of capital, a continuous drain. Unless we are able to stimulate the kind of economic development and rebirth, then we're going to have these vast areas that instead of being the magnet and the very attractive force for a quality of life second to none, why, they would begin to dissipate, and we will lose that great vibrancy and vitality that we once enjoyed.

I would like to commend you, Mr. Chairman, for holding these hearings, and I submit my statement as if read in the record.

Senator BAUCUS. Thank you, Senator. Without objection.

[The prepared statement of Senator D'Amato follows:]

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SMALL BUSINESS COMMITTEE
ECONOMIC DEVELOPMENT IN RURAL AMERICA
JUNE 29, 1988

MR. CHAIRMAN, I WOULD LIKE TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS MORNING OUR DISTINGUISHED PANEL OF WITNESSES WHO WILL BE DISCUSSING THE PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA.

THE PROBLEMS THAT CONFRONT RURAL AMERICA DIFFER IN MANY WAYS FROM THOSE IN OUR NATION'S URBAN AREAS. PART OF THE PROBLEM IS THAT PEOPLE ARE LEAVING RURAL AREAS IN DROVES AND MOVING TO LARGER CITIES. IN 1987 THERE WERE OVER THREE QUARTERS OF A MILLION PEOPLE THAT MIGRATED TO URBAN AREAS. COMPARE THIS TO THE AVERAGE RATE OF MIGRATION IN THE 1960'S - 170,000 PER YEAR - AND ONE CAN UNDERSTAND THE MAGNITUDE OF THE PROBLEM.

MIGRATION IS NOT THE ONLY FACTOR IN PREVENTING ECONOMIC PROSPERITY IN RURAL AMERICA. THREE OF THE BIGGEST ITEMS ARE THE LACK OF ACCESS TO TRANSPORTATION, TELECOMMUNICATIONS, AND CAPITAL. WITHOUT THESE THREE RESOURCES IT BECOMES

INCREASINGLY DIFFICULT TO ATTRACT INDUSTRY AND BUILD AN ECONOMIC BASE.

WE NEED TO EXAMINE EACH OF THESE ISSUES CAREFULLY BEFORE WE SEARCH FOR A SOLUTION. THIS HEARING IS AN EXECELLENT FORUM FOR ADDRESSING THESE PROBLEMS. I LOOK FORWARD TO THE TESTIMONY OF OUR WITNESSES AND TO THE INSIGHT THEY ARE SURE TO PROVIDE TO THIS COMMITTEE AS WE EXAMINE THE PROBLEMS OF RURAL AMERICA.

THANK YOU, MR. CHAIRMAN.

Senator BAUCUS. Mr. Burgess.

STATEMENT OF PHILIP M. BURGESS, EXECUTIVE DIRECTOR, U.S. WEST, INC., DENVER, CO

Mr. BURGESS. Mr. Chairman, my name is Philip Burgess and I am here today representing U.S. WEST, which is a Denver-based telecommunications company where I serve as executive director and special assistant to the chairman. But I am also here representing the Western States Strategy Center which is a public/private partnership devoted to economic development in the western States where as a loaned executive from U.S. WEST, I serve as president.

I appreciate very much the privilege of appearing before this Subcommittee today, and I will make my remarks brief and with your permission submit a longer piece for the record.

Senator BAUCUS. It will be included.

Mr. BURGESS. My remarks are based on nearly 15 years' experience working in the west, Mr. Chairman, first as the executive director of the Federation of Rocky Mountain States, which was a public/private coalition for economic development back in the 1960s and 1970s; later as executive director of the Western Governors' Policy Office, which the Governors established in response to the energy crisis in the mid-1970s; and more recently during the past year or so as an employee of U.S. WEST and as director of the Strategy Center.

I especially appreciate your concern, Mr. Chairman, and the leadership you are bringing to assessing the prospects for economic development in rural America. I can assure you that prosperity in rural America is a major concern of U.S. WEST. Our company cannot prosper unless the rural west prospers, and finding ways to achieve it is the major concern of the Strategy Center.

The problems of rural America are well documented, and I don't intend to go through that list today. Suffice it to say there is a demographic problem. People are moving out. We find sluggish economic growth. Many rural industries are weak, and the weakness is particularly important in banks, as was mentioned earlier today, in the mining industry, energy and agriculture related businesses. There are fewer and fewer jobs in many areas.

In fact, this might be a statistic that would interest you that we have just arrived at through some of our work. An 11 State region in the west has lost more than 321,000 jobs in the mining industry alone since 1980, and the resurgence of the timber industry in many parts of the west has been accompanied by declining jobs, reflecting the increased productivity. Well, we're looking for productivity increases. So, many of these achievements, on the one hand, have very negative effects on the other hand as far as jobs and community vitality are concerned.

As a result of these kinds of things, there are fewer opportunities for people and families in too many parts of rural America and particularly in the resource-based economies of the west. As a result we have the out-migration, which is especially a problem because the young people are often the first to go.

There is also a two economy problem in the west, the differences between the urban west and the rural west, what you called the Swiss cheese economy which, by the way, I think is a very apt portrayal because we have this image in this country of the so-called bicoastal economy but, in fact, we have pockets of prosperity all across this country surrounded by seas of recession and in some cases even depression. And that is a new phenomenon for America. And it is something we have to develop some new institutional responses for.

So, if the problems of rural America are well documented, the causes of the problems in rural America are much less well understood. Some view the current situation in the rural west, for example, as just another cyclical downturn. After all, we have had boom and bust cycles in the west with oil and gas and gold strikes and so on, and they say just hold on. Things will come back.

But other people say the changes in rural America, especially in the rural west, are more effectively understood as structural changes. That is, things may not come back. And from my point of view, it is much more productive to view the changes that are occurring in much of rural America and particularly in the rural west as structural changes. Things may not come back the way they were before.

The changing structure, for example, of agricultural export markets as a result of the Green Revolution may not allow us to have the same kind of expanding export markets that we were told 8, 9 or 10 years ago we would have. Countries such as China and India, for example, are now exporting food.

The changing structure of the supply for minerals products is another example, cooper, lead, zinc, molybdenum, things that come out of our part of the country in the west. As recycling technologies develop, the biggest copper mine in the world today is under the streets of New York City where they are pulling up copper cable to replace it with fiber optic cable.

And discovery and processing technologies are allowing us to find things all over this world that we didn't even know existed before. We thought in the mid-1970s that a big molybdenum mine in Colorado was the world's largest deposit. We now know that we have similar deposits that are now being mined in Canada and Australia because of remote sensing and other technologies which allow us to find these mineral resources that in the 1970s we thought we were running out of.

So, cyclical forces are clearly at work in the western economy, but I believe we would be much farther ahead if we worked from the premise that many of the traditional industries are not likely to come back in their original forms. So, what we are witnessing is a broad-based structural change not only in the American economy, but in the western economy and in the economy of the rural west.

Let me make one other point on causes, and that is that many others see the problems of rural America less in terms of these broad-based economic forces of changes in the structure and business cycles, but more in terms of assets and liabilities. I think it is also a useful way to look at these things. To be sure, there are many liabilities in rural America. The rural west, for example, lacks access to capital, access to transportation. Very few business cultures in the west include high growth industries and all that goes along with that.

On the other hand, there are many assets in rural America and we should keep these in mind. These includes skilled and adaptable work force. Who, after all, in this country has a broader range of technical and management skills than a modern farmer, that keeps the books at night but fixes the tractor in the daytime, that understands weather, that has as broad range of very deep knowledge and in a wide number of areas. Rural America also has a strong work ethic. The people give 8 hours of high quality work for 8 hours of pay. And high quality workmanship and pride in work are the key ingredients in the new economy. So, rural America also has lower operating costs than many larger urban areas. Rural America generally has good school systems, and this is particularly true in the west, along with clean air and open spaces.

These are qualities of community life that many high growth companies are looking for today as a way to attract and retain highly-skilled workers. And I am not just talking about high-tech companies, I am talking about low-tech and no-tech companies. The important thing in the new economy is the tremendous increase in new enterprise formation. We had 200,000 new business starts in the mid-1960s. Last year we had 700,000 new business starts. And we need to create the environment in the west, and especially in rural America wherever it may be regionally, where those kinds of enterprises can get underway. And we have a number of groups that are pointing the way in this regard like the Committee for Enterprise Development and others that are doing some very good work. But the kinds of assets they say should exist are the kinds of assets we have in many parts of the west.

So, not all the trends in rural America are on the liability side of the ledger. Rural America can make it in the new economy if we learn to be more productive and adaptive to changing markets and technologies.

There are three myths about the west that I think we need to deal with. One is that "rural" means agriculture. In fact, rural is also ranching. It is mining. It is timber. It is light manufacturing. It is small business. It is tourism. It is a range of sectors in our economy. And we need to look at it through more than one set of filters.

The second myth is that all rural areas are alike. I think your point in the beginning about a pluribus unum is really important in this regard because while the unum is important, in this town too often that is all we talk about. The many is also important. We have many different regions in this country that vary widely in size and economic base, in institutional infrastructure and in local capacity to do things. And as we try to make one out of many, we need to give more attention to the many, to the differences. Sometimes in this country the differences are more important than the similarities. And too often that is ignored.

And finally, number three, the myth that all we need are more State or Federal programs. In fact, the answer may lie in achieving more effective coordination and strategic use of existing resources. For example, in the State of New Mexico, the Governor and other leaders in that State have found ways to use abandoned military facilities at Rozwell Air Force Base. And as we look to the coming months in this country and the shutdown of military facilities, which is increasingly talked about in the press, we need to be inventive about how those facilities might be used to promote enterprise development.

The Agricultural Extension Service is one of the most important institutional inventions and public policy in the history of this country. We have to find more effective ways of using that tremendous resource, and many in that culture are already working on that.

We need to take existing Federal programs that have shown some promise in some parts of rural America for the Job Training Partnership Act. Some EDA programs and others have been successful and need to be retained. But all of this requires new institutional innovation.

So, the punch line of my testimony, Mr. Chairman, is that I think we need to give new attention to the institutional architecture of rural America. We need to give new attention to how the Federal Government works with State and local governments to make sure that programs are tailored for the unique differences that exist in different regions of this country. We need to find new ways and new institutional mechanisms for the tremendous assets that exist in rural America to be mobilized and focused on the future.

You know, back in the late 1970s under the Carter Administration, and then in the first months of the Reagan Administration, we had a bipartisan assault by President Carter and President Reagan on the title V regional development commissions. Now, there were a lot of problems with those commissions, but there were a lot of advantages of those commissions too. They were often looked to, unfortunately, as funding programs.

But what was often not understood about the regional development commissions is they served as mighty and effective vehicles for negotiation between the Federal Government and State government. The Federal co-chairman in a regional development commission was an appointee of the President, confirmed by the Senate, who had the authority to make decisions on behalf of this Federal Government.

And we need to have ways today. The drought that you mentioned is a perfect example. We need to have ways today that the Federal Government can tailor and target programs to unique needs and circumstances as they exist in this wide and varied country.

We have a new highway bill coming up in the next 18 months or so. There are going to be tremendous pressures to turn the highway programs that were started in the mid-1950s from construction and repair and maintenance programs into inter-urban and intraurban mass transit. And nobody can go along the Bos-Wash corridor and not see the need for that. But at the same time, the people who see that every day never see the problems in flying to Helena, MT. They never see the problems in getting from one point in the west to the other. So, we have to have a way to make sure that if a new highway program is developed in this town, that it doesn't ignore the vast open spaces of the western States where transportation is the key to economic survival.

Thank you very much.

[The preapred statement of Mr. Burgess follows:]

BOOTSTRAPS AND GRASSROOTS

An Approach to Economic Developement In Rural America

Testimony by

Philip M. Burgess
U S WEST, Inc.
Denver, Colorado

Prepared for

Senate Committee on Small Business
Subcommittee on the Rural Economy and the Family Farm

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Bootstraps and Grassroots:

An Approach to Economic Development in Rural America

Mr. Chairman. My name is Philip M. Burgess. I am here today representing U S WEST, Inc., where I serve as executive director and special assistant to the chairman. I am also representing the Western States' Strategy Center, a public-private partnership in the western states where, as a loaned executive from U S WEST, I serve as president.

My remarks are based on nearly 15 years' experience working in the western USA -- first as executive director of the Federation of Rocky Mountain States (FRMS) -- a public-private coalition devoted to economic development; later as executive director of the Western Governors' Policy Office (WESTPO) -- an organization of 13 western governors; and during the past 14 months as an employee of U S WEST and as director of the Strategy Center, an organization devoted to western economic development. I appreciate the privilege to appear before this committee today.

I especially appreciate your concern, Mr. Chairman, and the leadership you are bringing to the prospects for economic development in rural America. Prosperity in rural America is a major concern of U S WEST and finding ways to achieve it is a major concern of the Strategy Center.

Our concern for the rural West arises in part out of our responsibility as a good corporate citizen to see the growth of economic prosperity and expansion of opportunity in our society and in our service area. As our chairman, Jack MacAllister, has said many times in reference to our many corporate commitments to improving the lot of the homeless, strengthening education, and promoting economic development, "We cannot expect our free society to survive and prosper if growing numbers of people have nothing to lose, little to gain, and few opportunities."

However, we are also motivated by bottom line concerns. By that I mean, our company's good fortune depends, in some considerable measure, on the good fortune of the western region it serves. Unlike many other companies located in the West, whose primary markets are national and even global, U S WEST cannot prosper unless the West prospers. We are an expression of our geography. The West is our territory and its people our primary customers. That's where we get the lion's share of our revenues. As more and more reports on our company begin with the phrase, "Despite the lackluster economic performance of the region...," we are increasingly mindful of our stake in the improved economic well-being of our 14-state region.

So, Mr. Chairman, our concern for the economic development of rural America and the American West reflects both our corporate social responsibility concerns and our hard core business interests.

Let me share with you how we see some of the issues you are addressing in these hearings.

A. Major Problems in Rural America.

The problems of rural America are well documented. People are moving out. We find sluggish, indeed, often negative, economic growth. Many rural industries are weak -- particularly banks, mining, energy, and agriculture-related businesses. There are fewer and fewer jobs in many areas. In fact, we have lost more than 321,000 jobs since 1980 in the mining industry alone.

As a result, there are fewer opportunities for people and families. Hence, the outmigration, which is especially a problem because the young people are generally the first to go.

The rural West has been particularly hard-hit by the cycles of boom and bust which have characterized the commodity-based economies of the West since the 19th century.

The boom of the 1970s, like all the others before, resulted primarily from externally stimulated growth fueled by rising global prices for energy, minerals, and agricultural commodities and expanded federal spending in the region -- and not by internally generated, home-grown, high value-added economic development.

With the bust of the 1980s, we see the rise of two economies in the West -- a rural, declining economy based primarily on resource industries such as agriculture, timber, mining, and energy and a more healthy and diversified yet still struggling urban economy based on federal spending (for military bases, federal field agencies, federal labs and other R&D installations) , technology based industries (new materials, electronics, aerospace, biotechnology, computers, etc.), and service industries (especially financial services, engineering, tourism, and telecommunications).

If the problems of rural America are well-documented, the causes of the problems in rural America are less well understood. Some view the current situation as just another cyclical downturn. "Things will come back again," this school of thought says.

Others view the changes in rural America -- and especially in the rural West -- more in terms of structural changes. From this point of view, our problems are more than just a downtick in a business or commodity cycle. Rather, people taking this point of view will point to widespread changes in the structure of supply and demand for many of the products of the western economy:

- the changing structure of agricultural export markets as a result of the Green Revolution and other innovations in the technology and practice of growing things -- with countries such as China and India now exporting food.

- the changing structure of supply for mineral products (copper, lead, zinc, molybdenum, etc.) -- as recycling and new technologies of discovery and processing are giving us more and more product in areas where only a few years ago we were told we were running out.

- the changing structure of demand -- as the downsizing of homes and automobiles and the substitution of new materials (such as fiber optic for copper lines) uses fewer units of materials traditionally produced in the rural areas of the West.

Though cyclical forces are clearly at work in the western rural economy, I believe we will be further ahead if we work from the premise that many of these traditional industries are not likely to come back to their original form. What we are witnessing, in other words, is broad-based structural change in many of the industries that form the backbone of the rural West. As a consequence, we need to focus our attention and resources on how to make it in the new economy and not sit and wait for the old economy to come back. Nor are we likely to benefit from public policies -- such as protectionism, industry bailouts, etc. -- that resist the transition to the new economy.

Others see the problems of rural America less in terms of broad economic forces and more in terms of the assets and liabilities, the balance sheet, of these areas. There are, to be sure, many liabilities -- particularly access to capital and transportation and a business culture that includes high growth industries.

On the other hand, there are many assets in rural America. These include skilled and adaptable work force. Who, after all, has a broader range of technical and management skills than a modern farmer?

Rural America also has a strong work ethic, where people give eight hours of high quality work for eight hours pay. High quality workmanship and pride in work are key ingredients of success in the new economy. Rural America also has lower operating costs than many larger urban areas. Rural America generally has good school systems along with clean air and open spaces. These are the qualities of life that many high growth companies are looking for today as a way to attract and retain highly skilled workers.

In short, not all the trends in rural America are on the liability side of the ledger. Rural America can make it in the new economy as we learn to be more productive and adaptive to changing markets and changing technologies.

B. Federal Responses to Rural America

Making it work for rural America in the new economy will require leadership at every level of government and in the private sector to work together, to rationalize and streamline existing programs, to create new consolidated programs, and to give high priority to the institutional mechanisms that will facilitate this process.

First, it is clear that there are many federal programs now in place that are working. Studies by the National Governors' Association (WGA), the National Association of Counties (NACo), the Western Governors' Association (WGA) and others coupled with our own observations point to the value of many federal programs, including:

- Community Development Block Grants (CDBG), which have been used extensively to finance the construction of infrastructure that supports economic development -- especially water and sewer systems, roads and streets, etc.
- Small, rural communities have also used Urban Development Action Grants (UDAGs) to extend the reach of water systems and other infrastructure.
- Grants from the Economic Development Administration (EDA) have also provided a major planning, management, and financial resource for the development of rural areas in America.

- The Job Training Partnership Act (JTPA) has been used with some imagination in combination with other federal programs to increase the capacity of rural workers to take advantage of new opportunities.

- The Agricultural Extension Service, one of the most successful institutional inventions of the American system of government, has been a major positive force in the past and, in the future, could be a major force in helping rural areas to take charge of their transition to the new economy. The extension programs of the University of Wisconsin and Oregon State University already stand as powerful statements of the economic development potential of this massive, already in place, institutional resource.

- Industrial Revenue Bonds (IRBs) and other financial incentives to foster local infrastructure development have been centerpieces of many rural development efforts. Notwithstanding well-publicized abuses, IRBs have been an important and positive force in providing the bootstraps needed to foster new economic activity.

So, as we move to consider new initiatives, we should take a careful account of what we have and how it is working. We should guard against throwing out the baby with the bathwater -- as we did, on a bi-partisan basis, when President Carter initiated and President Reagan finished off the job of eliminating the regional commissions for economic development. In the West, we had three active commissions: the Four Corners Regional Commission (including Nevada, Utah, Colorado, New Mexico, and Arizona), the Old West Regional Commission (including the Dakotas, Nebraska, Wyoming, and Montana), and the Southwest Border Commission (including California, Arizona, New Mexico, and Texas).

While these commissions were often highlighted for their pork barrel tendencies -- and too often with justification -- their more important function was almost always overlooked: the regional commissions -- with a federal co-chairman appointed by the President and confirmed by the Senate -- provided an important forum for federal state-negotiations, so that federal programs could be tailored to the specific situations and needs of the states in each commission. Think of how useful such a mechanism could be today -- along the USA-Mexican border, for instance or to help sort out federal and state responsibilities as we restructure federal domestic programs for urban and rural areas.

C. Conclusion

The problems confronting rural America are immediate, the pain is real, and the solutions will not be found in a ready-to-wear formula. Rather, we must start with some presumptions, move to conclusions and tie ~~it~~ them together with some ideas for innovations in policy and management that can make things work in rural America.

We start with the presumption that America is experiencing its own economic restructuring. This process of restructuring, which is going on in Japan, the Soviet Union, the EC countries, and elsewhere, is a painful but necessary part of our nation's and our region's continued economic survival and prosperity.

Restructuring is affecting different regions and different sectors differently. The rural economy and especially the rural economy in the West has been very hard hit.

As the rural West struggles to get back on its feet, it is necessary to remember that we are talking about a large and diverse area.

- The economic base of the rural West varies widely from place to place. It is not just agriculture. It is also ranching, mining, timber, light manufacturing, small business, tourism and other industries; and

- The rural West is highly diverse and richly textured in other ways: not all areas are alike when measured by size, infrastructure, ethnicity, culture, and institutional capacity.

Accordingly, innovations in policy and management by the different levels of government and by the private sector must, above all, take account of this diversity. This means that a very high priority must be given to institutional innovations.

In addition we need to give attention to institutional issues so we can take full advantage of the many resources that are already available-- and so that new resources can be created. For example, we have tremendous resources available to us -- local talent and leadership; federal, state, and local programs and other resources; and the institutional resources of the region's business community, its universities, the state extension services, and others.

The problem is we are not very good at making all these parts work together. The government's mission agencies -- at every level of government -- tend to focus on narrow functional concerns. That is natural and to be expected, but this tends to result in a fragmented approach to problems that have many parts: financial, communications, transportation, management, marketing, etc.

Political and community leaders tend to focus on their constituencies -- again a natural thing to do but this often gives us a bulkanized approach to things. What we need are settings or forums where civic leaders -- i.e., elected officials; leaders of labor, education, and business; and leaders from the voluntary sector -- can raise issues, identify problems, explore solutions, and resolve differences of views. We also need to make sure these forums have some technical back-up to analysis and problem-solving and some "venture" capital from government or corporate philanthropy to do things. At the turn of the century in America, we called these kinds of things "civic leadership coalitions." They worked. We need to reinvent them -- on a local as well as a multistate regional basis. We need them because the job, while doable, will require tough choices, intergovernmental and public-private collaboration, and the mobilization and targeting of talent and other limited resources. This is what I mean by addressing the institutional problems.

So, I am not a pollyanna about the future of rural America or the rural West. But, as John Elway said two seasons ago on the Broncos' 2 yard line -- just before the long touchdown drive against Cleveland, "If we work hard, good things will happen."

Senator BAUCUS. Thank you very much. They were both excellent statements.

I would like to focus first on present Federal programs. How can we make them work better for rural parts of America? Mr. Domenech mentioned the importance of SBIR and community development block grants. Mr. Burgess alluded to the need to make present programs better tailored to address some of the problems we have. Would both of you describe for us what you think we can do to help encourage more of those programs to go to rural America?

Mr. DOMENECH. Well, firstly, Mr. Chairman, I would like to say that the SBIR Program in my opinion today is one of the more balanced programs with respect to small businesses today. It is clearly one of those programs that has not become politicized, and I believe that SBIRs are, in fact, awarded based on the technology contained within the proposal.

But what happens, seemingly so, as I mentioned in the statement, there are four States that seem to take their unfair share of the total pie. And, in fact, there are some companies that exist solely because of an SBIR Program. There is also the opportunity for very large companies to spin off subsidiaries who exist solely on an SBIR Program.

Senator BAUCUS. Why don't other States take advantage of the SBIR programs like those four States you mentioned have? Is it that they are unaware of the program or is it that there is lack of proximity to Washington?

Mr. DOMENECH. I think it is more of a lack of collective knowledge that a small business, such as ours in Bozeman, MT—we can only have by definition so much information. To get more information, we have to go great distances to get to the centers of technology that I referred to earlier. And I think that in the other areas, such as California and Boston and the Washington area, that that exists at a very short distance so that if you have an idea, and that if there is a small, weak point in the idea, that you can merely go down the street and hire some very good expertise to fill that void and then make your proposal much more competitive than a competitor's proposal. From our perspective in Bozeman, MT, that is very difficult because it is tough to get someone from Washington, DC or from southern California to come live in Bozeman, MT. It is just hard. And if there is a void in the proposal itself, some very small weak link in the technical portion, then that is a significant concern, and oftentimes you are not competitive.

Senator BAUCUS. What about community development block grants? Do the same considerations apply?

Mr. DOMENECH. I think it does. But I think to a certain extent, the problems with community development block grants are really a State level and not a Federal level. It seems to be, as I mentioned earlier, that the ones that are awarded are awarded to companies who continue to suggest a program of commonplace manufacturing, not the high information-based technologies. The making of shoes, the development of a light industry type thing is much easier for people to understand and, therefore, to credit or to bank on and to allocate and give the grant in the community development block grant.

Senator BAUCUS. Are there any other Federal programs you can think of that could be better tailored to rural areas?

Mr. DOMENECH. I think to a certain extent, as Mr. Burgess pointed out earlier, the Job Training Partnership Act is very important. In Montana I serve on the Private Industry Council of the Job Training Partnership Act, and I think one of the problems that we are facing there is that we tend to concentrate on delivering a service to an individual who cannot possibly participate in high information quite simply because they are not educated. They are not educated to the level that they need to be. And yet, we miss the positive advantages from the Job Training Partnership Act by not allowing, let's say, college graduates to participate in the very important portion of that act, which is job training.

Senator BAUCUS. Mr. Burgess, what do you think about the present programs? How do you think they can be better tailored for rural America?

Mr. BURGESS. I think the lesson to be learned from the past 10 to 15 years is that the programs that have been most successful have been those that have given attention to management issues and to bringing together the various user communities.

Senator BAUCUS. For example?

Mr. BURGESS. For example, the JTPA. Mr. Domenech talked about the Private Industry Council. That is a place where you have the industry, Government, labor other elements of the community coming together trying to tailor a general mandate from the Federal Government to local conditions. And it has been fairly successful in many places. And I think that the reason is because careful attention was given here to how the services are delivered at the point of delivery, not how they are administered out of this town. And I think that is the real important lesson that we ought to apply to a lot of other programs.

The same with the Ag Extension Service. What is important about it? Why has that been such a successful program since 1913 when it was founded? Because it provided a mechanism to bring together the farmer as an end-user and the producers of fertilizers and other kinds of products to increase productivity on the farm and the Government and the universities to decide what ought to be done.

Senator BAUCUS. Well, that's true. And the result is terrific advances in agricultural productivity in America.

A later witness thinks that all of these rural development programs should be taken out of USDA and put in some other agency so that we would have the agency focusing on agriculture and another focusing on business development in rural areas. This witness then points out that today 10 percent of farmers' income is nonfarm income.

Mr. BURGESS. Yes. I don't think we need to emphasize the agriculture aspect of it as much as the extension and service aspect of it. And I'm not going to speak to whether it should be the Department of Agriculture or not, but my testimony says—and I just briefly said in my oral statement—that I do believe we need to reorient the Agricultural Extension Service. The important thing about it, though, Mr. Chairman, I think is that as a model for how the Federal Government does business in these areas, I think both the JTPA and the Ag Extension Service have some good things to bring forth, some good lessons to learn. And those lessons are primarily how to business, management kinds of lessons, rather than programmatic.

Senator BAUCUS. I agree with you. Any other programs come to mind?

Mr. BURGESS. Well, I think the community development block grants have been very important in the past, especially on infrastructure development. And even some UDAGs have been used in some rural areas for water systems and other infrastructure.

Even though it has been roundly criticized over the years by Republicans and Democrats alike, I think the Economic Development Administration, and particularly some of the planning and management and financial resources that have been made available through there have been very important. Now, people start measuring these things. What difference does it make? And they look at the 80 percent of the counties that receive these monies, and lo and behold, they can't find any differences. But if you look in specific cases and in parts of the country I am familiar with the kind of capacity that has been built for improved leadership and improved management of existing programs through this glue money that is provided by some of these programs in the EDA, I think they are really important.

Senator BAUCUS. I'm beginning to think that maybe what we need to do is address many of today's rural problems in much the same way we did when we made sure rural areas had electricity, telephones, and an interstate highway system. Do you think it's possible, or even a good idea, to bring telecommunication capabilities to rural America in the same way that electricity was brought there? Do you think we can or should devise some kind of an interstate air transportation system?

Mr. BURGESS. I think that that is a very important issue. I think that, after all, the development of advanced technology in this country doesn't just mean that everybody makes computers. It means that everything we make changes its character. And what it really changes is the weight of things—the weight, just the pure weight. And that means that today many times industries can be located off of rail heads, off of waterways, even off of highways because they fly in the supplies and they fly out the products. And that is happening time after time. In fact, one way to define high technology is it has a low weight to value ration. And I think that the importance of air transportation cannot be over-emphasized in today's economy.

I went to Helena last year, having not been there for about a year, and I was shocked. You can't get there from Denver. If you're in Denver, you can go to Billings. And if you're in Salt Lake, you can go to Helena. But you can't go to Helena from Denver. And if you are in Helena, it is hard to go any place unless you go through Billings. And that is not what we think of as a major jub. But if you are in the west, it is.

Senator BAUCUS. Now wait a minute. [Laughter.]

Mr. BURGESS. And the same way, telecommunications. It seems to me that telecommunications are the highways of the new economy. They are going to be to the new economy what waterways and canals and——

Senator BAUCUS. Let's explore this a little bit. Could either of you—and maybe you, John, because you are a businessman—just outline for us some examples of some of the practical problems that a small business in a high-tech, mid-tech, low-tech firm might face with respect to the unavailability of telecommunications technology or adequate air service?

Mr. DOMENECH. I'll give you some actual cases that occurred in 1987, and as a businessman, one remembers these things, and they only happen once.

Last year alone we lost about $700,000 in revenue because we could not get to the client facility from Bozeman, MT, using the air systems at a decent price. What happened was we had competitors on the east coast located very near the pharmaceutical industry. We submitted a bid, in one particular example, of $400,000. The competitor came in at $405,000. We had an additional $60,000 and some odd in transportation costs. The competitor had none. The competitor got the job. That occurred last year for the total of about $700,000 that we missed revenue on.

Now, what we have done—we learned from that. We said, OK, we can't continue doing that from Bozeman, MT, because of the prices of airline tickets. So, to beat the competitors we are going to open the small satellite offices of three to five people each where the pharmaceutical industry is located because we don't want to have to learn that lesson twice. Next time—and we're actually going through a bid process right now—we don't have those increased transportation costs. So, now we can compete on a one-to-one basis.

What that does, it takes three to five jobs per office out of Bozeman, MT, and it puts it squarely in the metropolitan areas. We don't have any choice. That is what we have to do to compete.

Senator BAUCUS. How much of that increased air fare cost is due to airline deregulation?

Mr. DOMENECH. I think that, for example, in Salt Lake City, because it is fairly well controlled by one major airline, Delta, that you don't find the competitive prices that you would find, let's say, at Denver. Knowing that, I would not elect to move to Salt Lake City to try to run a business simply because there is not enough competition on that route structure. And it is the same thing in Bozeman, MT. If you want to go east, you ride on Northwest. If you want to go southeast, you essentially ride Delta.

Senator BAUCUS. Can you give examples of other practical problems of inaccessibility? Air fare is one. Does anything else come to mind?

Mr. DOMENECH. The ability to transmit data I think is going to be much more important 10 years from now than it even is today in our company. Because of what is required to compete, we are not outfitting each employee within the company with a personal, portable computer that essentially becomes their briefcase. Where that will become important long range is if we cannot continue to send the data over the telephone lines at a quick period of time or over a short period of time, seconds, minutes, or the ability to transmit that data accurately, we are going to be in trouble.

Senator **Baucus**. To what degree is that a problem in rural America?

Mr. **Domenech**. I don't think it is a problem right now. What bothers me is that because of recent judicial decisions with respect to the deregulation of the Bell System, AT&T in particular, that the larger companies are not allowed to get into areas that they need to get into and stay into so that they continue to develop their internal resources to make everyone competitive 10 years from now.

Senator **Baucus**. What about that, Mr. Burgess? You are right in the catbird seat.

Mr. **Burgess**. I think that is true. I think that the constraints that have been put on the original Bell companies by the various court decisions that have been made have severely constrained the ability of those companies to use their considerable talent and their considerable financial resources for the benefit of the areas they serve. So, they are not allowed to get into manufacturing. They are not allowed to—there now are questions about to what extent they can engage in R&D.

At the same time, we have in this country, in this market, Siemon's from Germany. We have S.G. Ericksen from Sweden. We have NEC from Japan. We have all these telecommunications companies around the country that can do in our market what we aren't allowed to do as regional telephone companies. So, I think that I agree with his comments and that a lot of assets that could be in the process of being built for our region, especially for the rural areas, are simply out of bounds now because of decisions that have been made.

Senator **Baucus**. What about access to capital? Real interest rates are higher in America and they are higher than they are for our major competitors. How are we going to get cheaper capital in rural America?

Mr. **Burgess**. I'd just add one thing. I think the macroeconomic issues you talked about are really important. Those can only be handled here. I think there are some regional and rural issues that I would just touch on briefly.

One is that access to capital is a real problem in the sense of the kinds of people that run rural banks. I mean, these people were raised on how do you put money into mines and farms and those kinds of things. And when you come to many of these banks with ideas that involve light manufacturing or new service industries or traded services, things like that, they don't understand those kinds of issues. There is a tremendous need for the banking community to grow itself into the new economy.

Another aspect of that, Mr. Chairman—and especially in the west—is we have many backward banking laws in our States, unit banking laws and other kinds of things, which make it impossible for institutions to accumulate large amounts of capital. So, a business person in the west, even a small business person, very soon runs up against a limit, the lending limits of a local bank. And they end up in Chicago, Seattle, or Dallas.

Senator **Baucus**. I agree that is a problem, but how do we change it? Does the prospect of foreign investment put a competitive edge to local bankers, force them to act more competitively, or is that not a factor?

Mr. BURGESS. Yes, I think it is a positive factor.

Senator BAUCUS. Can you give us some examples?

Mr. BURGESS. I think that when you have—nothing gets the attention of a business person faster than a competitor. And I think when you start seeing banks in Germany, in Canada, in Japan—really the European and Canadians are more important than the Japanese at this point—coming into those markets, I think they start saying how can we serve these markets.

Senator BAUCUS. Do you see that happening? Are they coming in?

Mr. BURGESS. Sure.

Senator BAUCUS. I see it too. I know of several instances, for example, in Montana.

Mr. BURGESS. They are even into venture capital funds, investing in venture capital funds, in this country.

Senator BAUCUS. How else do we encourage local banks to get with it?

Mr. DOMENECH. Well, I think that the larger banks, the banks with more collective knowledge, really are the key examples to encouraging economic development into high technology companies. I think that singly owned, very small local banks won't have, don't have and cannot get the type of brain power necessary to evaluate high information-based service companies.

What bothers me is, with foreign banks coming in, outside investment because essentially what happens with the venture capital firms' funds coming in that are foreign-based, foreign-owned, you can't fault a foreigner for coming into our country with 30 percent dollars and saying, gee, let me invest this money because I know I can make a bundle. But at the same time, that is an information drain. It goes right out of America and it goes right into some other country's pocket. And I think that that is a significant problem long term and that we should not allow ourselves to be out-competed by somone else funding our research and development. They reap the benefits of the technology and we miss it in our own back yard.

Senator BAUCUS. Any other points either of you want to make? Thank you both.

Mr. DOMENECH. I do want to make one more.

Senator BAUCUS. Yes.

Mr. DOMENECH. You asked the question earlier about the Small Business Innovative Research Programs. I think that we can do two things really. I think that, first, the SBIR Program could be expanded to include all Federal agencies with extramural budgets of about $20 million or more. That is not done today. All Federal agencies do not have an SBIR Program itself.

Second, I think we can assign topic areas of interest to rural economies that have these topic interests that have high commercial potential and that they can be adopted by each agency, and then that agency can, in fact, fund in that area.

Senator BAUCUS. Thank you both very much.

The next two witnesses, the next panel, are Ms. Winifred Pizzano and Mr. Russell C. Youmans; Mr. Youmans with the Western

Rural Development Center, and Ms. Pizzano is Federal co-chairman of the Appalachian Regional Commission. Let's begin. Ms. Pizzano, begin first.

STATEMENT OF HON. WINIFRED A. PIZZANO, FEDERAL CO-CHAIRMAN, APPALACHIAN REGIONAL COMMISSION, WASHINGTON, DC

Ms. PIZZANO. Good morning, Senator. I am very glad to be here. As you said, I am Winifred Pizzano or Winnie Pizzano basically, and I am the Federal chairman of the Appalachian Regional Commission, which is a partnership at the Federal level funded by the Federal Government: one Federal appointee, myself, appointed by the President and confirmed by the Senate and 13 Governors of the States involved in the Appalachian region. We are an independent agency, and therefore survived the title V cuts.

I do appreciate this opportunity to appear before you today to report on the activities both of the commission and to share some observations with you of economic development in rural areas and in the Appalachian area, of course, and also throughout the rest of the United States. I have submitted an extensive written statement for the record. I will summarize it here if that is appropriate.

Senator BAUCUS. If you would please. I think there is going to be a vote coming up fairly soon. So, if both of you could keep your statements fairly short, then we can get to questions.

Ms. PIZZANO. All right.

I am pleased to see that there is a focus on rural development policies. It is a change and I discern more of a sense of urgency since I have been working in this area for the past 6 years. And I am delighted to be able to have some comments on it.

I do think it important as this process of shaping new rural development policies moves forward in that area, that we recognize that America's rural problems are not synonymous with the agriculture problems that are now faced in the United States.

Let me hasten to say that I am not diminishing that problem or the people who are suffering agony with it at this moment. The farm crisis is a part, but only a part of the overall challenge facing those of us who are concerned about rural America. And just a few statistics will support that position.

More than 70 percent of all rural counties in the United States are not classified as farm dependent by the USDA. Agricultural counties account for less than 12 percent of the employment and less than 12 percent of the personal income in rural areas. More than 60 percent of farm families' income comes from nonagricultural sources.

I cite these figures not to diminish the valuable contributions, of course, made by agriculture and agri-business to the health and wealth of our Nation, but to point out that policies aimed at agriculture, no matter how successful, can advance in only a very limited way our progress toward the goals of rural recovery, rural stability, and rural prosperity in the United States.

Policies must be crafted to address a plethora of problems that are being faced in the rural area. The Subcommittee has expressed an interest in whether or not rural economic development should be made in the Department of Agriculture. As you know, by law rural policy rests with the Secretary. But frankly, I think the time has come to reassess that role.

As I stated before, the problems facing rural America are not all farm related, nor are all the solutions. Solutions rest in the number of jobs created and in infrastructure-strengthening programs outside the jurisdiction of the Department. Neither am I convinced the best solution is to move the programs or the policy direction to another Cabinet agency, such as Commerce, when we have such large programs resting in HHS and the Department of Housing and Urban Development, for instance, which affect rural areas every day.

Other alternatives suggested on the House side have been to create a White House office or a FEMA type of agency that might be able to deal with this problem. It is a question which deserves careful consideration by your Subcommittee.

As this Subcommittee well knows, rural areas have been struggling during this decade for a variety of reasons beyond the farm-related problems. And I would like to outline some of those problems that have hindered economic development in rural areas.

In the past rural areas have relied on manfacturing to a greater degree than metropolitan areas for their wealth creation. Moreover, typical manufacturing based in rural communities has been heavily dependent on a single industry and often on a single employer. Rural communities dependent on extractive industries, such as coal, oil, minerals and timber have been adversely affected by forces that are really fundamentally beyond their control. And finally, lower levels of educational attainment in rural areas have limited their ability to attract the growth industries in our U.S. economy. Each of these problems has impeded the economic development of rural areas in Appalachia, and I am presuming in other parts of the country.

After grappling with these problems for about 6 years, I have some fairly strong opinions on how we at the Federal level can use more productively our funds and other resources that we have available to find solutions to the problem.

First, we must do a better job of targeting. We have substantial Federal funds available to rural areas, not going into the areas of the most need. Limited resources make a strong case for tough decisions on targeting funds into this area.

Second, I believe strongly that we have to make sure that the Governors of the States have much to say about the parameters of new development programs and about how those programs are developed and run within their States. This is a time when many of the most innovative concepts and initiatives in rural development have been conceived at the State level, and I do think that the Governors can make a profoundly positive contribution to rethinking the role of the Federal Government.

One of my most strongly felt conclusions that I have reached at ARC centers on the value of providing maximum flexibility to States and the use of their Federal funds, particularly in the area of rural development. So, while the Federal Government would say we want to target funds to specific areas of need and specific kinds of funds to those needs, we still allow the States to craft their own programs using their local development districts as their delivery mechanism.

These three recommendations—a better targeting system, a larger role for Governors, and more flexibility in the use of rural funds—won't solve our problems entirely. But they will improve our success rate I strongly believe, and Governors will more efficiently and productively use the tools that we have available here at the Federal Government.

I have identified four challenges facing rural policymakers and practitioners. First, is the challenge of work force preparation. Nothing will be more critical to rural economic development than the quality and flexibility of the rural workforce. I think that the components of this challenge are clear. High school dropout rates must come down in rural areas. Adult literacy rates must come up. Programs at voc/ed and technical schools must be directed more precisely at the likely jobs of the future. And work place job training programs must be improved so that we can have retraining of our current workers.

A second challenge will be to focus greater attention on reversing some adverse trends in rural health care. Perhaps the most troubling statistic in this area and certainly the one that receives the most attention from the media is the closing since 1981 of 125 rural hospitals. Appalachia has lost 42 of those hospitals. These hospitals have closed for a variety of reasons, not all of which or should be or can be addressed by the Federal Government.

Nonetheless, these hospital closings are of great concern to rural America for three reasons. First, in many of our counties in Appalachia, a large share of the local workforce typically is employed by or because of the hospital.

Second, an important advantage these hospitals bring to rural communities is for physician recruitment. It is tough enough to get physicians and nurses into rural areas as it is now; and not to have a hospital that they can affiliate with easily makes it even more difficult.

The third and most important kind of contribution I think made by hospitals is to the quality of life and the economic development in rural areas. I paint here for you a picture not only of the need for adequate health care, but the economics of having hospitals and other kinds of health delivery systems in rural areas. I'm not convinced that every hospital that may be going out of business shouldn't. There may be other ways to handle health care in those areas, but I think that there is more to this issue than simply just that hospital's existence.

Rural America faces another challenge in the area of physical infrastructure. I think that has been dealt with already, but the growing importance of human infrastructure probably mitigates to some extent, but by no means eliminates the need for adequate public facilities to contribute economic development in rural areas.

Senator BAUCUS. Ms. Pizzano, I'm going to have to interrupt you. Can you tell me roughly how much more time you have because——

Ms. PIZZANO. About 2 minutes.

Senator BAUCUS. Two, OK, if you can keep it at 2 because I have to dash for a vote.

Ms. Pizzano. The final challenge facing the rural areas I think is what we're going to do to diversify those rural economies. In our ever more competitive world and national economy, flexibility, and the ability to adapt to change will be more important than before. And that means we are talking about better prepared workers, providing rural firms with improved access to new technologies, to capital, to entrepreneurial training, and providing better local infrastructure and health services to them.

ARC has responded to some of these challenges I think in positive ways and ways that we would like to report to you further, Mr. Chairman. My written statement discusses them in detail. And I would be happy to answer any questions.

[The prepared statement of Ms. Pizzano follows:]

Testimony

by

The Honorable Winifred A. Pizzano

Federal Co-Chairman
Appalachian Regional Commission

before

The Senate Small Business Subcommittee
on the
Rural Economy and Family Farming

June 29, 1988

I appreciate this opportunity to appear before you today to report on the activities of the Appalachian Regional Commission, and to share some observations on economic development -- not only in Appalachia, but throughout rural America.

Mr. Chairman, I have served as Federal Co-Chairman of the Appalachian Regional Commission since September 1982.

During nearly six years in that position, I have become convinced that the challenges we face in rural Appalachia are similar in most respects to those found in other rural areas of the country. Accordingly, some of the lessons we have learned --and are continuing to learn at ARC -- may prove beneficial outside the boundaries of the Appalachian Region.

In that regard, Mr. Chairman, I am pleased to report that increasing attention is being focussed on rural development policies by public officials at every level of government -- federal, state, and local. In addition, there is a sense of urgency, if you will, to those deliberations that I did not detect in the earlier part of this decade.

However, I think it will be important as the process of shaping new rural development policies moves forward, for us to make clear that America's "rural problems" are not synonymous with its "agriculture problems."

The farm crisis is a part, but nevertheless only a part of the overall challenge facing those concerned about rural America. A few statistics will help to underscore this point:

-- More than 70 percent of all rural counties are not classified as "farm dependent" by U.S.D.A.;

-- Agricultural counties account for less than 12 percent of the employment, and less than 12 percent of the personal income in rural areas;

-- More than 60 percent of farm families' income comes from non-agricultural sources.

Mr. Chairman, I cite these figures not to diminish in any way the valuable contributions made by agriculture and agri-business to the health and wealth of our nation. Rather, my hope is simply to point out that policies aimed at agriculture -- no matter how successful -- can advance in only a very limited way our progress toward the goals of rural recovery, stability, and prosperity.

The Committee has expressed an interested in whether or not rural economic development should remain in the Department of Agriculture. As you know, by law rural policy rests with the Secretary of Agriculture.

Frankly, I think the time has come to reassess that role. As I stated before, the problems facing rural America are not all farm related, and nor are the solutions. Solutions rest in a plethora of job creating, and infrastructure strengthening programs outside the jurisdiction of the Agriculture Department.

I am not convinced that the best solution is to move the programs (or the policy direction) to another cabinet agency such as the Department of Commerce, since there are several government agencies involved, ranging from the Department of Education, to HHS, to HUD.

Other alternatives would be to create a White House office, or a FEMA type agency. It is a question which deserves careful consideration. Certainly, the current situation is not satisfactory.

As this Committee well knows, rural areas have struggled during this decade for a variety of reasons beyond the farm-related problems that have received so much media attention.

I would like to outline some of the problems existing that have hindered economic development:

-- Rural areas have relied on manufacturing to a greater degree than metropolitan areas.

  The typical manufacturing-dominant rural community has tended to be dependent on the traditional, mass production segments of industry that pay less, require fewer skills, and have fared poorly against foreign competition.

-- Moreover, the typical manufacturing-based rural community has frequently been heavily dependent on a single industry, and often on even a single employer.

  Accordingly, these communities have found it far more difficult to respond to economic downturns than have metropolitan areas with their more diverse economic profiles.

- -- Rural communities dependent on extractive industries such as coal, oil and gas, minerals, and timber have been adversely affected by forces fundamentally beyond their control. Middle East politics, the price of the dollar, and the effect of interest rates on homebuilding are problems rural areas understand all too well, but are powerless to do anything about.

- -- Finally, lower levels of educational attainment in rural areas have limited their ability to attract employers in many of the "growth industries" in the U.S. economy.

  Not only have high school dropout rates been higher in rural areas, but so have adult illiteracy rates and the percentage of students scoring poorly on standardized tests.

Each of these problems has impeded the economic development of rural areas of Appalachia, and in other parts of the country as well.

And, Mr. Chairman, after grappling with these problems for more than five years, I have some fairly strong opinions about how we at the federal level can use more productively the resources available to us to find solutions to these problems.

First, we simply must do a better job of "targeting" federal funds to the rural areas that need them most. Limited resources make a strong case for tough decisions on targeting funds.

Second, we must make sure that the governors of the states have much to say about both the parameters of new rural development programs, and about how those programs are run within their states. In a time when many of the most innovative concepts and initiatives in rural development have been conceived at the state level, I think our governors can make a profoundly positive contribution to re-thinking the federal role in this area.

Finally, I think one of the most strongly-felt conclusions I have reached during my tenure at ARC has centered on the value of providing maximum flexibility to states in their use of federal rural development funds. I feel strongly enough about this to suggest that if I were the governor of a state, I would pass up a 20 percent across-the-board hike in federal economic development funds for a corresponding increase in the flexibility accorded me in the use of existing funds. The ability to move, and move quickly, is that important.

For example, Mr. Chairman, the links between education and economic development grow more apparent all the time. So if I am a governor, or a mayor, with a firm that needs skilled, educated workers, and they are not available--federal funds for water and sewer lines do me absolutely no good at all. Not today, anyway. Maybe down the road.....but in these fast-changing times, "down the road" may be too late.

Let me give you just one concrete example to illustrate my point:

Last year, a University of Kentucky researcher ranked Jackson County dead last among the state's counties on a scale devised to measure "quality of life." The county has the lowest 8th grade completion rate in the state (62 percent)....the lowest high school completion rate (25 percent)....per capita income at just 41 percent of the national average.....and an average manufacturing wage that is 38 percent of the national average.

Nevertheless, that very same county was selected for the location of a new multi-million dollar high tech manufacturing facility. The plant eventually will employ about 500 people to produce high tech components for consumer electronics using some of the most advanced production equipment available.

Mid-South Industries, headquartered in Gadsden, Alabama chose the community -- despite its shortage of skilled and educated workers -- in part because the leaders and workers of Jackson County made a commitment to workforce preparation that rivals anything I have ever seen, Mr. Chairman.

Time doesn't permit me to tell this story in detail, but what happened, in essence, is that Mid-South Industries used space in a local church, and several community buildings, to launch an intensive worker training program that included:

-- G.E.D. classes for high school dropouts;
-- Basic math;
-- Blueprint reading;
-- Measurement and instrumentation;
-- Principals of manufacturing;
-- Electronics theory and assembly; and,
-- Injection molding.

The instructional period was a full 40 hours per week, lasting for six months, and near-perfect attendance was required. Special arrangements were made to accommodate people who had other jobs, and needed to attend in the late afternoons and evenings.

This was a true public-private partnership, Mr. Chairman -- one requiring total commitment, and great flexibility from all parties. It demonstrates clearly the connection between education and economic development.

It's the kind of success story I think can be repeated all over rural America -- after all, remember what I said about Jackson County's education and economic deficiencies. 120 out of 120 counties in Kentucky. If they can do it, surely almost _any_ rural county can.

These three recommendations --better targeting, a larger role for the governors, and more flexibility in the use of rural development funds -- won't, by themselves, solve our problems in rural America. They will, however, greatly improve our success rate -- _if_ we use them as tools with which to tackle the issues that matter most in rural development.

When considering the many federal programs that provide support for business development I would say that no one or even two programs provide more support than others. ARC's experience with economic development projects has illustrated that combining federal and state programs with local participation works well. If existing programs are targeted and properly utilized, no new programs should need to be developed. It is appropriate for farm related programs to remain at the Department of Agriculture and non-farm rural programs to remain in the related agencies.

After reflecting at length on the many changes taking place in our global economy, and the impact those changes will have on our rural areas, I have identified four principle challenges facing rural practitioners and policymakers in the future:

First, and foremost, is the challenge of workforce preparation. Nothing will be more critical to rural economic development in the future than the quality and flexibility of the rural workforce.

The component parts of this challenge are clear: high school dropout rates must come _down_; adult literacy rates must come _up_; programs at voc-ed and technical schools must be aimed more precisely at the most likely jobs-of-the-future in the areas they serve; and workplace job training programs must be improved as well.

Our second challenge will be to focus greater attention, and resources, on reversing some adverse trends in rural healthcare.

Perhaps the most troubling statistic in this area -- and certainly the one most mentioned by the media -- is the closing since 1981 of more than 125 hospitals in rural areas. Appalachia has lost 42 of those hospitals during that same period -- 25 of them in rural areas.

These hospitals have closed for a variety of reasons, not all of which can be -- or should be -- addressed by the federal government.

However, considerable concern has been raised about the possibility that changes made by Congress in the Medicare prospective payment system (PPS) may have caused -- or, at least hastened -- the closure of some rural hospitals.

No one can say for sure about that, yet, but we are rapidly learning more about the impact Medicare PPS is having on those mostly small hospitals.

These hospital closings are of grave concern, Mr. Chairman, for a number of reasons, including:

- -- the large share of the local workforce typically employed by -- or because of -- a rural hospital;
- -- the important advantage those hospitals give rural communities in the area of physician recruitment;
- -- and the important contribution made by hospitals to the "quality of life" -- and hence, the economic development -- of rural areas.

Rural America faces a third key challenge in the area of physical infrastructure. The growing importance of human infrastructure mitigates to some extent -- but by no means eliminates -- the very real need to construct adequate public facilities that contribute to economic development in rural areas.

The final challenge facing rural areas, Mr. Chairman, one encompassing much of what has already been said, is the need to diversify our rural economies.

In our ever more competitive world and national economies, flexibility and the ability to adapt to change will be more important than ever before. As marketing niches grow narrower and more discrete, smaller manufacturers and service firms -- many of them in rural areas -- will be able to compete for business once beyond their reach. That's the good news.

Their success, however, will depend on increasing the availability of resources now in short supply in all too many rural areas. Meeting the needs of rural business in the days of traditional, large-scale mining, manufacturing, and timbering was very different than it will be as our rural economies become increasingly diversified in order to survive and prosper.

Today, as I have said, better workforce preparation takes on unprecedented importance. Flexible (i.e., well educated and re-trainable) workers are indispensible to flexible production.

In addition, for rural economies to diversify, rural firms will require increased amounts of capital. Access to capital has historically been a problem in rural areas; and if we don't improve capital flows to these firms, we risk short-circuiting much of the diversification so essential to rural survival.

At the same time, the rapid pace of technological change holds out both promise as well as potential pitfalls for rural areas. New technologies promise opportunities never before available to rural firms; but only if we move aggressively to improve technology transfer, diffusion, and outreach in rural areas.

Similarly, we must re-think the infrastructure needs of rural areas, with an eye toward balancing the building of much-needed roads, bridges, and water treatment systems with a corresponding commitment to newer forms of infrastructure such as fiber-optic networks, microwave transmission systems, satellite links, and other means of extending the benefits of advanced telecommunications and other new technologies to our rural areas.

Finally, Mr. Chairman, we will best meet the need to diversify our rural economies by developing the skills of our rural entrepreneurs. It is widely acknowledged that the greatest source of new jobs nationally has become -- and will continue to be -- small firms. That can be as true in rural areas as anywhere else in the country. However, often the sources of entrepreneurial assistance and training are concentrated far from rural areas. More can and should be done to make such assistance more readily available to rural entrepreneurs.

In short, Mr. Chairman, the challenge of diversifying our rural economies depends on better prepared workers; on providing rural firms with improved access to new technologies, business capital, and entrepreneurial training; and, on supporting rural communities as they seek to provide better local infrastructure and health services -- in support of both business development, and an improved quality of life for this generation of rural Americans, and the next.

ARC has responded to each of these challenges in ways we believe:

-- are responsive to the wishes of the Congress;
-- produce maximum results from the resources expended;
-- do an increasingly better job of targeting;
-- and, provide much-needed flexibility to the 13 Appalachian states and their governors who serve with me on the Commission.

For example, the largest share of our annual budget continues to be spent on highways, access roads, sewer and water lines, and other forms of physical infrastructure -- as we continue to build on the substantial progress made in that area since 1965.

Our stepped-up commitment of the last few years to workforce preparation -- best evidenced by ARC's regionwide assault on the problems of high school dropouts and adult literacy -- is, if anything, stronger than ever. Next month, we will announce yet another round of dropout grants to local school districts, bringing our total number of students reached to more than 30,000 since that program was launched in 1985.

On the issue of healthcare, in 1987 we commissioned a study of the impact of Medicare's PPS system on small rural hospitals, and have made copies of those findings available to the Committee.

Later this year, ARC will host a high-level "agenda setting" meeting on rural healthcare -- bringing together many of the key players in this field from the healthcare, academic, and governmental sectors.

We are moving with equal dispatch, Mr. Chairman, to provide Appalachian businesses greater access to a range of resources that will increase their capacity to compete-- both across the country, and around the world.

In providing support for business development ARC has made efforts in the areas of capital availability, exports and marketing, entrepreneurial training and technical assistance.

Today I would like to highlight very briefly the fourth leg in this table: technology transfer and diffusion.

ARC has been interested in this area for several years now, Mr. Chairman, but at our annual meeting here in February, the Governors and I voted unanimously to place an increased priority on technology transfer in 1988.

The Commission has set aside more than $1.6 million in the current fiscal year for projects relating to technology transfer. As always, the bulk of those funds will be advocated among our 13 member states with at least $100,000 available to each state for approved projects.

We are also working closely with the Southern Technology Council and the Tennessee Valley Authority on a series of projects designed to get community colleges in the Region working with small manufacturers on technology transfer and diffusion. We are convinced that Appalachia's community and technical colleges are among the best in the nation, and we have high hopes that they can make a major contribution in this area.

Finally, Mr. Chairman, we will make technology transfer the prime focus of our annual conference, which this year will bring together experts from business and industry, as well as government and academia, for a regionwide meeting to be held September 28-30 in Greenville, South Carolina.

Mr. Chairman, I appreciate this opportunity to appear before you and would be pleased to answer any questions you or your distinguished colleagues may have.

SUPPLEMENTARY STATEMENT
ON
SMALL BUSINESS INNOVATION RESEARCH PROGRAM

In recent years, the Appalachian Regional Commission has been very successful in leveraging small amounts of funds to take advantage of development opportunities made possible, in part, by other federal programs. One such opportunity was the Federal Small Business Innovation Research Program.

In 1983, it was brought to the Commission's attention that a significant federal program designed to increase participation of small innovative businesses in federally funded research and development programs was not being utilized by the Appalachian States. Subsequently, the Commission discussed the SBIR program with state officials and $425,000 was authorized to locate and assist small businesses to take advantage of the program. The Commission's initiative required a 50-percent match.

In the first year of the ARC program, Appalachian States received approximately $11 million in SBIR grants. Examples of how ARC funds were used and their results follow:

- o The State of Alabama used funds from the SBIR initiative to match university research with business research and development to strengthen the capabilities of innovative firms to compete for awards and develop new products to commercialization. SBIR awards in Appalachian Alabama have increased each year.
- o North Carolina used funding to establish a technical assistance program to assist small firms by working with the North Carolina Technological Authority. This effort is designed to work primarily with innovative startups.
- o Pennsylvania used ARC funds to publicize the SBIR program and state funds to provide proposal development assistance. The Pennsylvania program has grown annually from 28 awards in 1982 to 71 awards in FY 1986.
- o Tennessee firms with ARC assistance have received more than $13 million in awards. These same small businesses have received substantial investment from industry to commercialize their research.

The Commission's success in leveraging funds to assist small firms has paralleled and I believe contributed to the success of the SBIR program. As you know, the original federal research and development set aside has grown from $40 million to $450 million in awards to innovative small businesses in FY 1987.

Senator **Baucus**. Thank you very much. That was a very comprehensive statement. I am going to have to recess the hearing for about 10 minutes for a vote. I'll be back in about 10 minutes. Thank you.

[Recess.]

Senator **Baucus**. The hearing will come back to order. I very much apologize to the witness for the inconvenience. There was an extra vote and other business that had to be transpired. I again apologize to the witnesses for the delay.

Mr. Youmans, why don't you begin?

STATEMENT OF RUSSELL C. YOUMANS, DIRECTOR, WESTERN RURAL DEVELOPMENT CENTER, OREGON STATE UNIVERSITY, CORVALLIS, OR

Mr. **Youmans**. Thank you very much, Senator. I am Russ Youmans, director of the Western Rural Development Center located at Oregon State, one of four rural development centers associated with land grant institutions across the United States. Ours happens to be charged with the responsibility for extension and research programs in 13 States in the west.

The challenge that I see coming out of education, and I believe also viewing that challenge to the Federal structure, is to increase the range of realistic alternatives that are available to rural people in communities. Largely, I see these alternatives as coming from existing conditions, the sort of conditions that the Senator and others here today have talked about in terms of the world, not necessarily new state or Federal programs.

I would suggest two Federal investments be considered. The first of those is an investment in rural community leaders themselves. This process is needed in order to improve the conditions within rural communities that can allow them to improve the range of alternatives that they have community by community across this country.

And second, I believe there needs to be an increase in the capability at the Federal level and departments of analysis of rural issues, and particularly the sorts of departments that have been mentioned here today, the executive Departments of Transportation, Health and Human Services, Commerce, Treasury, Ag, Labor, Education, for example.

To go back to those two investments on community leaders particularly, we have invested in programs that assist businesses individually, capital availability, management assistance, market development, and so forth. We have also invested in infrastructure, in many cases roads, water, sewer, industrial parks, and so forth. But I submit that the investment that we have not made nearly to the degree needed is helping local leadership gain a perspective on the world in which they need to operate. It is this group of people that need to blend the various resources and capabilities together to make a rural community conducive to supporting a local business and an employment base. This investment is basically one in improving the economic quality of a community and allowing them to achieve a realistic set of opportunities.

The second suggestion made here is that Federal departments generally have almost no one assigned to think about how their programs or policies operate in rural communities across the country. There are very few rural desks in executive departments. There needs to be some attention given to rural concerns. The significant rural differences dealing with lower population densities with narrow economic bases, many times tied to natural resources, but increasingly breaking from that historic tie, and also a thinner base or leadership that is spread among many, many more jobs. The environment in which 25 percent of the U.S. population lives needs a better understanding on the part of Federal departments.

You asked a question in your letter about is there a positive rural future. I believe that there is. But we are going to have to work very hard at the community level in order to help those people secure the promise of a reasonable quality of life in the future.

There was an additional question about specific industries. And there are a couple of people that I know specifically who are following the program who have done research in that area and are much better capable of addressing the specific industries issue than I am.

Let me talk just a little bit in summary about where the jurisdiction for rural programs might exist. I'm very well aware of the problems laid before the Department of Agriculture and the colleges of agriculture and the land grant institutions with respect to their ability to successfully deal with a broader rural agenda. There are some things, though, I think in the Department and in the land grant structure that need to be considered as we look for a place to house this Federal responsibility.

One, the largest concentration of research capability on rural issues is located in the Agriculture and Economic Division of the Economic Research Service, with about 19 researchers located here in Washington, DC—the largest concentration. Within the land grant structure, it is a very small proportion of the total research community within the agricultural experiment stations, but collectively across this Nation the largest amount of research directed at rural areas is located in the ag experiment station research programs.

In addition to those two USDA-tied resources is the Extension Service, which has been mentioned here earlier. And within the Extension Service there is again a small but dedicated staff working on these broader rural issues. And the fact that the Extension Service is one that represents the compound republic that we are with Federal, State and local interrelationships in its funding and program delivery, I submit it is one that we will need to take advantage of as we work community by community to help rural areas.

Again, I believe that the Department of Agriculture needs a program and policy staff on a permanent basis that sustains that department's focus on the rural community agenda and is advisory to the Secretary of Agriculture and to Congress. And I see that as a staff that is in addition to the ERS staff, who I hope continue to do analysis that could feed into that process but continue to be focused on research.

At this point I feel we know much more about the alternatives that are available to rural communities than we can currently deliver to community leaders for them to develop for their own betterment. Locally and federally we need to help those people in local communities shape the nature of their realistic future.

Thank you, Senator.

[The prepared statement of Mr. Youmans follows:]

RUSSELL C. YOUMANS

TESTIMONY before
Committee on Small Business
United States Senate
June 29, 1988

1. Problem for Rural America.

In the 1950's Arthur Lewis wrote that the benefit of economic development was the increase in "the range of human choice". I rather expect others at this hearing will discuss major changes in technology, the world economy and the global community, and how these changes are important to rural America. The challenge I feel is to determine how these major changes and the resources available alter the range of choices available to rural people and communities. Pragmatically this challenge lies with rural people and rural leadership; these are the people who need to be equipped to address the changes and develop alternatives (choices).

It may not be surprising that an educator would advocate increasing the education focused at rural community leadership to help this leadership analyze community alternatives and secure identified benefits. Kenneth Boulding has been quoted as saying that education is the systematic loss of information. This seems appropriate here because rural people do not need more information, at least not first. They need assistance in developing frameworks to use in determining what information is important and needed, and how to secure the positive opportunities. A major objective of management (in the private sector) or leadership (in the community sector) is to figure out what and how the various resources and available capabilities are blended together to meet an identified objective. I would encourage efforts to expand the number and capability of rural leaders - private and public - to identify, evaluate and select viable alternatives and work toward their attainment.

For the family or community, a stable or rising disposable income increases the alternatives available. Income can loosely be translated into employment in a community, so community leaders may wish to work on issues related directly to employment. There have been two types of investment in assisting expansion of the employment base that are of interest to me. One is aimed at direct assistance to the business itself - management help, incubators, capital etc. A second is the investment in infrastructure - industrial parks, sewer and water systems, transportation etc. All of these may play an important role. However, we have not invested enough in the leadership in communities to establish and maintain an environment that supports businesses and jobs.

Work reported from Florida[1] again reinforces that the largest source of new jobs in rural communities is the formation of new firms - not the expansion of existing firms nor recruiting outside employers. The community environment associated with these start-ups include:

- start-up capital
- an entrepreneurial climate
- an information network
- a degree of innovation

These conditions are portions of the community environment that need to be developed and maintained. These are challenges that local people can meet.

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[1] Malechi, Edward, "New Firm Startups: Key to Rural Growth", Rural Development Perspectives, USDA, February, 1988.

Not surprisingly, I come back to the need for capable leadership to anticipate the type of community environment needed and put that environment in place. New firms form in communities where leaders know where equity capital, an incubator, community college training programs, or available business land is needed, and provide access to these elements. To provide this environment leaders must have a framework to think about the future and be credible when going to the public and private sectors for the support to provide the needed elements.

2. Possible Federal Assistance.

The contention here is that improvement of rural conditions will largely take place community by community. State and Federal roles are to establish conditions that support the economic development efforts of leaders in communities.

First, I would invest in economic development education for rural community leaders. I believe we have tested enough educational programs to know what is helpful and how it needs to be delivered. There are not enough people to reach the rural communities where residents want to increase their economic alternatives. Part of the task is to work with local volunteer leaders to reduce apathy and burnout by seeing that volunteer time is productive and individually rewarding. In part, we need access to current scholarship. Our educational information must be current, objective and well expressed. It also must address the community's objectives. I firmly believe we know what to do and how to do it; there simply is not sufficient professional support to assist volunteer leaders to be knowledgeable and effective in their communities.

Second, I would suggest consideration of establishing the specific capability in various Executive departments for analysis of rural issues associated with that department's responsibilities, policies and regulations, and the rural implementation of their programs. The Federal departments certainly include: Transportation, Commerce, Health and Human Services, the Treasury, Education, Labor, and Agriculture. Deregulation of transportation, banking and communication, delivery of health services, and investments in education are examples of issues that justify review for impacts on rural America. The analysis will show positive and negative impacts, but there needs to be systematic thought given to national goals. Frequently good federal programs are not effective in rural communities because rural places have a few important differences. It is important to remember that rural communities have:

- lower population densities
- a narrower economic base
- a thinner base of leadership spread in many jobs

This attention to rural issues is needed in good times and tough times.

3. Current Federal Programs.

Here I must be careful. I work within the Land Grant University system because I believe that applied scholarship is a very powerful positive force in our culture. Part of my job is related to research, part to extending that research for application. I am arguing that we need more investment in just these types of activities: To take our best analyses and scholarship to rural communities and sustain our working relationship with local leaders to help them succeed. The task is to assist local leaders to identify where they have opportunities to improve their future, and then develop a strategy to secure that future. The education and sustained effort is to help local people determine which type of assistance they need (federal, state or private), when it is needed, the form is should take, and where it is needed. They then are controlling the management function of blending the resources available. When they control the agenda, local people can find help through the Department of Transportation, Small Business Administration, Environmental Protection Agency, and Extension Service, and the many state and regional capabilities. When they themselves have solid analysis of the important issues and a strategy developed, they can call on programs with a specific context in mind. The program is based on the work of many community volunteers and a few professionals to assist these volunteers to be effective.

4. Is There a Rural Future?

Certainly, but not all rural families and communities will prosper and grow. Several forces seem to open new opportunities for rural communities: diversity of rural economies, small and inexpensive computers, changing communication technology. But changes in rural communities are needed to take real advantage of these developments.

5. Specific Industries.

Several others appearing before this committee have done extensive work with rural employment opportunities, so I will not address the issue here.

6. Where Should Jurisdiction for Rural Programs be Located?

Strong arguments have been raised about the problems of addressing rural issues through the U.S. Department of Agriculture and Colleges of Agriculture in the Land Grant Universities. Having worked in this environment for over twenty years, I recognize the basis for the argument. I don't have an alternative, and the two people I know best who raise the issue are really calling for a reawakening of the broader challenges to both the USDA and the Land Grant Colleges.

The Agriculture and Rural Economy Division of the Economic Research Service (USDA) is the largest concentrated rural issues research group nationally. Spread across the nation are the research faculty within Colleges of Agriculture, a small percentage of the total Agricultural Experiment Station capability, but collectively the major rural-oriented research investment in the U.S. Joining the ERS and Land Grant research faculty in reaching rural communities are the Extension Services, located in every state and almost every county across the U.S. This is the type of outreach structure needed to accomplish the job, at its best it is a structure that works with local volunteers and ties local, state and national analysis into the program. In order to effectively address the employment concerns of rural communities in the U.S.; the USDA and Land Grant Universities need to increase the staff commitment to this task. ERS provides an excellent USDA focal point for rural analysis: I want that group to remain focused on the research task. There is need for a rural program/policy staff within USDA, that translates rural related research and experience into analysis for the Secretary and Congress. There needs to be sustained working relationships with dedicated staff in other Federal Departments.

Finally, we currently know enough to help a lot more communities but simply lack the professional staff to provide the assistance the local leaders that is needed to make a real difference. I believe this is the most critical investment to help rural businesses and families build the local environment that is supportive of existing and internally generated new business.

Respectfully submitted,

R.C. Youmans

Russell C. Youmans, Director
Western Rural Development Center
Oregon State University
Corvallis, Oregon

Senator BAUCUS. Thank you very much, Mr. Youmans.

You have stated that Agricultural Extension Service or the Research Service in the USDA can address some of these needs which are often extra-agricultural in nature. Would you expand on that a little?

Mr. YOUMANS. I would say on the research side, the research side is more focused on agriculture in the traditional program than is Extension. I sit yearly with both of those sets of directors in the west and listen to their two agendas, and the Extension agenda is a much broader, richer agenda.

But one of the things that was done, for example, on the Rural Development Act of 1972 in which there was some money directed at rural development, about 1980 those funds were folded into formula. Prior to that, the Extension Service and research across the land grant institutions had to account for that money as being both in terms of education and research in rural development. When that was folded in, much of that money slipped into some old kinds of programs. As long as those researchers and extension people were charged with the responsibility of tying that work to rural development issues, they did.

And that's a problem that some of us on the broader agenda issue for a number of years worry about. If it is tied to specific programs and the justification has to come there, they'll do the work.

Senator BAUCUS. What about the points that the earlier witnesses made with regard to lack of access to capital, lack of access to transportation systems, telecommunications, technology? Does that square with your experience?

Mr. YOUMANS. Yes, it does. But my argument is in many cases the rural community leadership, the leadership in that community, really is not aware of the sorts of phenomena that happened with changes in technology, the strength of the dollar, interest rates and how those influence the alternatives that that community has. And there needs to be some considerable education taken to that leadership so that they can begin then to put the pressure on local bankers or going outside for banking, extend the call for improving communication lines and begin to pull that toward the community, not necessarily being the blind recipient.

Senator BAUCUS. Yes, but how do you do that, if somebody is sitting out in some smaller community?

Ms. PIZZANO. We work through organizations called local development districts very closely. I think they are pretty much wall-to-wall across the country. They are multi-jurisdictional agencies that have some responsibilities for economic and community development. In Appalachia we give them additional funding for their administrative costs, and they address many of the questions that Mr. Youmans has talked about in terms of leadership. They do work with local communities in terms of bringing them information. We right now have a very big effort on technology transfer. They are working through networking for that issue with junior colleges and with the universities, as well as with the businesses in the area.

Mr. YOUMANS. I'm not sure whether Glen Pulver at the University of Wisconsin will be a witness, but if you'll talk with Glen—not today, but later on. If you talk to Glen about the program that he has developed and run for a number of years in Wisconsin, now in over 70 communities in the State of Wisconsin, we are beginning to duplicate that in the west. And, in fact, in September, the training program for extension people across the west will take place in Salt Lake City. In Montana, Dave Sharp and others will bring down a couple of carloads of people to run through that program, to go back into Montana and address these kinds of issues in communities across the west.

Senator BAUCUS. Thank you very much.

We are honored to have with us Senator Pressler from South Dakota, a very active member of this Subcommittee.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Mr. Chairman, first of all, I want to thank you and congratulate for holding this important hearing. The prospect of economic development in rural America is something that concerns me and should concern all of our country. I think even if you were in the center of New York City, you would certainly want economic development in rural America because our cities are overcrowded. We need to have national policies to keep more of our people on farms or in smaller cities and towns. But that does not seem to be the case as things are working out although we see some favorable development along those lines.

In terms of western rural development—and I'll address this to Mr. Youmans—are we making progress, or is there still the exodus to the bigger cities? In the western States, are the smaller cities in rural areas losing population?

Mr. YOUMANS. Generally in the 1970s there was a turnaround in which actually the growth rate was higher in rural areas. But it has gone back to the historic trends that have run since the 1920s, and basically the population is moving out of rural areas once again.

Senator BAUCUS. What causes that? Why the growth in the 1970s and the reduction in the 1980s?

Mr. YOUMANS. I'm not sure that the demographers have really tied all of that down.

Senator BAUCUS. Would you venture a guess?

Mr. YOUMANS. There were some very good resource prices in the middle 1970s, and if you take a look at agricultural incomes and petroleum incomes—I'm not sure about mining. I haven't dealt with mining close enough. But if you look at some trends from, say, 1950 at least to date, the mid-1970s were the most lucrative period of time in that 38 year period. And I rather suspect that that had a major part to play in that. The completion of the interstate system and some other things probably closely tie in.

Senator BAUCUS. Thank you both very much. I appreciate your coming here.

Let's combine the final two panels together into one panel: Mr. Steve Waldhorn, director of the Center for Economic Competitiveness, Menlo Park, CA; Dr. William Gillis, director of the Center for Rural Pennsylvania in Harrisburg, PA; and Dr. Stephen Smith, associate professor at the Department of Agricultural Economics & Rural Sociology for Pennsylvania State University.

Mr. Waldhorn, why don't you begin in rural Menlo Park.

STATEMENT OF STEVEN A. WALDHORN, DIRECTOR, CENTER FOR ECONOMIC COMPETITIVENESS, SRI INTERNATIONAL, MENLO PARK, CA

Mr. WALDHORN. Mr. Chairman. I have slides we may want to spend just a moment on.

Senator BAUCUS. Certainly.

Mr. WALDHORN. I am Steven Waldhorn. I am director of the Center for Economic Competitiveness at SRI International. What I want to do is build on what the other witnesses today have been talking about. I very much appreciate the invitation to share with you some perspectives we have developed over the last 7 or 8 years working across the United States in collaboration with public and private groups in over 24 States. I particularly want to focus on what we call the economic infrastructure which we think is needed today to complement the similar role which physical infrastructure has always played. I also have a longer statement which I would like to submit for the record.

We have talked already in this hearing about the shift in the U.S. economy. Just as physical infrastructure was needed in the past to support an industrial, manufacturing, economy, so a new set of ingredients are required in today's post-industrial economy. We believe that the discontinuity in resource prices which Peter Drucker has pointed out is one part of the explanation of why rural economies have become so troubled. But we also think the lack of economic infrastructure is another major reason such economies are having trouble adapting to changing economic conditions.

I think it is clear that the bicoastal economy that we talked about for several years now is, in many ways, a function of the differing growth rate between urban and rural areas. This chart (Exhibit 1), shows the difference in growth rates between capital cities and the balance of States in the U.S. West. In effect it shows metropolitan growth rates as compared to rural growth rates. It illustrates the major decline in rural areas.

Even more troubling, this next chart (Exhibit 2), shows the major shifts which have occurred since about 1979 in U.S. regions' development. U.S. regions have been converging for the last 40 or 50 years; we see indications now that they are beginning to diverge.

Senator BAUCUS. Would you explain?

Mr. WALDHORN. These lines show per capita personal income in U.S. regions compared to the U.S. average. And what is striking is that until about 1979 these lines converged—as economists taught us they would. This occurred both because industries moved to lower wage areas within a more or less insulated national economy. But around 1979, the impact of the global economy began to penalize some regions and improve the performance of others. So, lines that had been converging began to move in different directions. In particular, predominantly rural regions began to decline.

The reason why you are holding this hearing—all of the problems that we have been discussing today—have a lot to do with inability of the more rural regions of this country to produce the kind of products that an advanced economy with the standard of living we have in the United States has to produce today to be competitive.

This next chart (Exhibit 3), graphically illustrates that where the U.S. economy could once be successful in producing commodity products such as grapes, commodity chips, personal computers, textiles or corn, areas which produce these products are all troubled today. Much of the world, for instance, has learned how to grow grapes. There are 32 net agricultural exporters in the world today, and that number is growing every year. But in California, the farmers who used to grow grapes can do pretty well producing Cabernet Sauvignon. I drove to Napa Valley on Sunday with my children and I saw some of that.

In commodity chips, Japan and Singapore and others proved to be major competition for us. But, we are still ahead in custom chips.

Again, the same with computers. Personal computers have become a commodity. But super computers are not.

Apparel is interesting. Firms in some areas are able to combine a relatively low wage workforce—like Los Angeles—with designer skills and produce a very competitive product.

And in areas like corn, States like Nebraska are trying very hard to push in new directions in food processing because the whole world has learned how to grow corn using adopted American technology.

We think for rural economies to produce the products on the right, Cabernet Sauvignon, custom chips, designer apparel—they must have four types of resources: accessible technology, skilled and adaptable resources, availability to capital, and innovative management. We think these are the factors that account for the ability of a State or region, rural or urban, to adapt.

And we think the reason that America's urban and rural areas has been diverging rather than converging is because access to these resources varies so much. We have classified U.S. regions and tried to look at those factors that allow regions to add value to industries.

For instance, in the area of technology, if you look at the numbers of scientists and engineers in a region, at patents, at the amount of industry research going on, you can see major differences. You can see areas like the central part of the United States, the Rocky Mountain States, are really lacking some of the capacities that both Federal and industry expenditures have helped build on the two coasts. If you look at human resources, at both the K–12 level and at the university level, if you look at the amount of spending going on in public education and at the quality of graduates, you again see significant variation. And in the area of finance, if you look at venture capital availability, the amount of lending by banks and innovation in State finance programs, you again see a variety.

Thus, we think it is no accident that the two regions which are at the top and the botton that are blue, which is the top marking that has the most highly developed economic infrastructure are the regions which have had the lowest unemployment rates in the country.

What we are trying to do in a number of places around the United States is, in essence, auditing the extent to which they have the resources they need to allow their industries to adapt, to allow their people to take advantage of new opportunities, to allow their localities to sustain themselves in a changing economy.

Thus, we, in affect, did an "audit" of the Appalachian region for the Appalachian Regional Commission. Just to take one example of the auto suppliers, you find that the chemical salesman who typically lets an auto supplier know about new materials, doesn't often knock on the door to somebody in a rural Appalachian area. He does do so in Cleveland and Michigan. So, if you are making windshield wipers, you don't find out about a new material. And If you hire people to run new American control machinery, you are hiring people who perhaps have good basic skills running farm machinery but haven't been trained in one of the large auto companies. Consequently, they are less productive than better trained workers. And if you go to a bank to try to get a loan for a new piece of machinery, the bank loan officer never heard of that kind of machinery. And so, you become inevitable a second or third tier producer. And you become inevitably much more a prey to foreign competition.

What we recommended to the Appalachian States' Governors at their last meeting about 5 months ago was to focus especially on what we call near term problems, getting available technologies widely disseminated, getting workers up to conventional training standards, making sure capital needed for modernization was available. We, in effect, recommended to the Appalachian Regional Commission, who sponsored our work, and to the Governors of the individual Appalachian States that they take their industrial extension programs and their training programs which they have used to try to bring branch plants into their States, and use them instead to enhance the ability of their existing industries to access technology, improve the skills of their workers, and find capital. That they, in effect, improve the economic infrastructure in Appalachia the same way they have worked together to improve the physical infrastructure, in the region.

We have just finished a major project in Nebraska for a public/private coalition. Our 200 page report went out as a Sunday supplement to 565,000 people in the State. This extraordinary outreach was an example of the commitment of the newspapers of the State, of the business leaders, and of the citizens on the project steering committee for a report. Nebraska is at risk. It's people, who are among the best farmers in the country, its smaller towns outside of Omaha and Lincoln, its industries are all troubled. Its small- and medium-size towns face particular problems which, I'm pleased to say, the whole State cares about. One of the most heartening parts of our Nebraska work was the fact the people in Omaha-Lincoln developed alliances with the people from the smaller towns and looked real hard at what needed to be done to move the whole State toward a more healthy future.

The report took a similar hard look at Nebraska's industries, at the number of jobs likely to remain in the "ag" sector, at the need to take advantage of some of the urban industries that Omaha and Lincoln have, to, perhaps move some service employment to smaller towns. Most "800" numbers are in Omaha. If you call an "800" number, it is likely to be in Omaha. Some of that information services can be moved out of Omaha to towns of 20,000, 30,000, 40,000. The State could help by focusing its educational programs, especially post secondary ones, into some of these mid-size regional centers.

We have fascinating discussions in the State. Here's a State of hardworking people, good land and water. It needs to change. Its trained its people for many years in its universities to be among the most productive farmers in the world. Now they need to develop new technologies to fit their industry base, upgrade their entire work force, make new kinds of capital available. A lot of experimentation, a lot of commitment will be needed to create the economic infrastructure they need to allow their economy to adapt and to ensure all growth does not focus in metropolitan areas.

Conclusion, Federal policy needs to concern itself with how we are going to create in our rural areas these economic infrastructure resources which are so lacking. We used to read 1970s stories about one or another high-tech innovator who opened a disk drive factory on the slope of the Rocky Mountains somewhere and created a rural renaissance. Well, it turned out that that person was far away from new technology, his workers far away from training, and once his product went into second and third generation, he sometimes faced difficulties, and he would often move to an urban center to find the resources he needed to keep up. We have to discover new ways to provide needed economic infrastructure in rural areas if they are going to remain competitive.

This means probably linking Federal and State efforts to build economic infrastructure. Certainly compensatory programs by themselves won't do the job. And we are not sure that programs aimed simply at rural areas can do the job because it has to do with the direction of State universities. It has to do with the direction of the State banking systems. It really has to do with linking Federal efforts to what are a very heartening series of State efforts around the country to provide the ingredients for all the industries in the State to be competitive.

We think moving in this direction, with the Federal Government providing planning evaluation money, encouraging regional cooperation is the direction which Federal policy ought to go.

Thank you very much.

[The prepared statement of Mr. Waldhorn follows:]

NEW PERSPECTIVES ON RURAL DEVELOPMENT

DRAFT

Testimony of Steven A. Waldhorn

June 23, 1988

Broad Themes from SRI's Work Across the Country

States across the country are rethinking their rural development strategies in light of new world economic realities. Although rural areas face different challenges than urban areas, it is clear that they too must be prepared to compete in an increasingly challenging environment. This testimony reviews emerging perspectives on the challenge of rural development and how to address it.

Across the country, U.S. regions seem to be diverging, with more urbanized coastal states faring better than more rural states in the American heartland (see chart on comparative unemployment rates). Regions that enjoyed significant growth in the 1970s (such as the resource-rich mountain states--see accompanying chart) have slipped in the 1980s with dropping world commodity prices and intensifying international competition. Overall, the 50-year trend of converging U.S. regions seems to have been broken in the 1980s (see per capita income chart), calling attention to individual regions and their capacity to compete.

A closer examination of the problem reveals that a growing rural-urban split seems to be taking place. The source of this divergence is twofold. First, rural areas tend to be at a competitive disadvantage because of their industry mix and structure. They also tend to be dependent on just a few industries; these industries also happen to be the ones most affected by increasing foreign competition. Such industries have traditionally had fairly stable, growing markets. Today, they face lower-cost competition in

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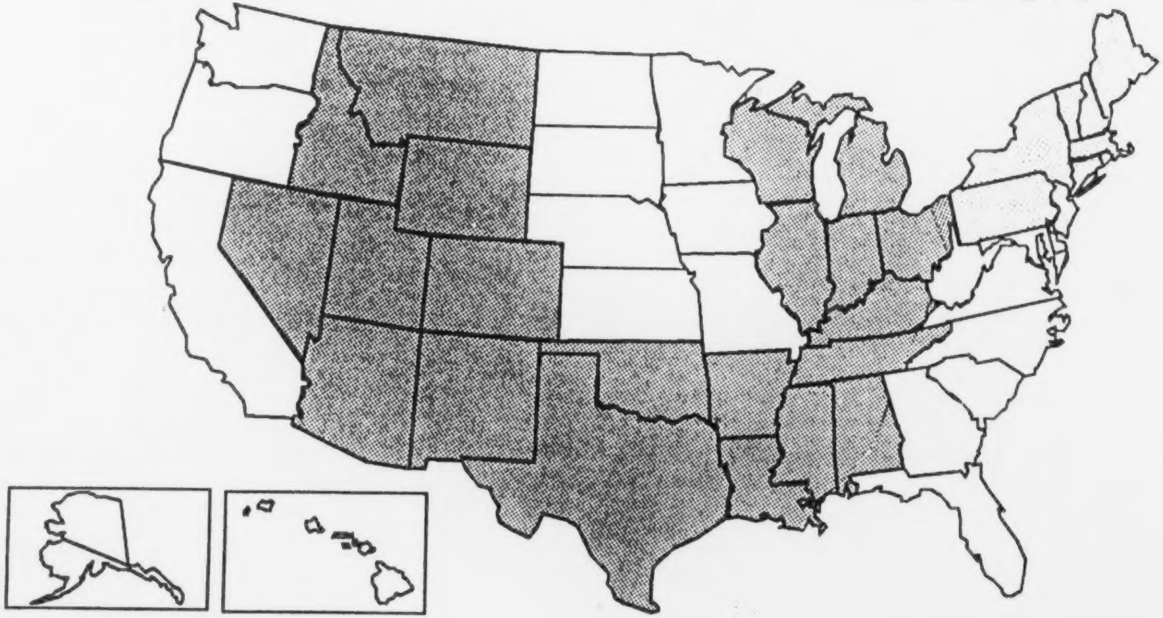
Unemployment Rate for U.S. Regions
1987

▨ 3.7-5.3 ☐ 5.5-6.9 ▩ 7-9.4



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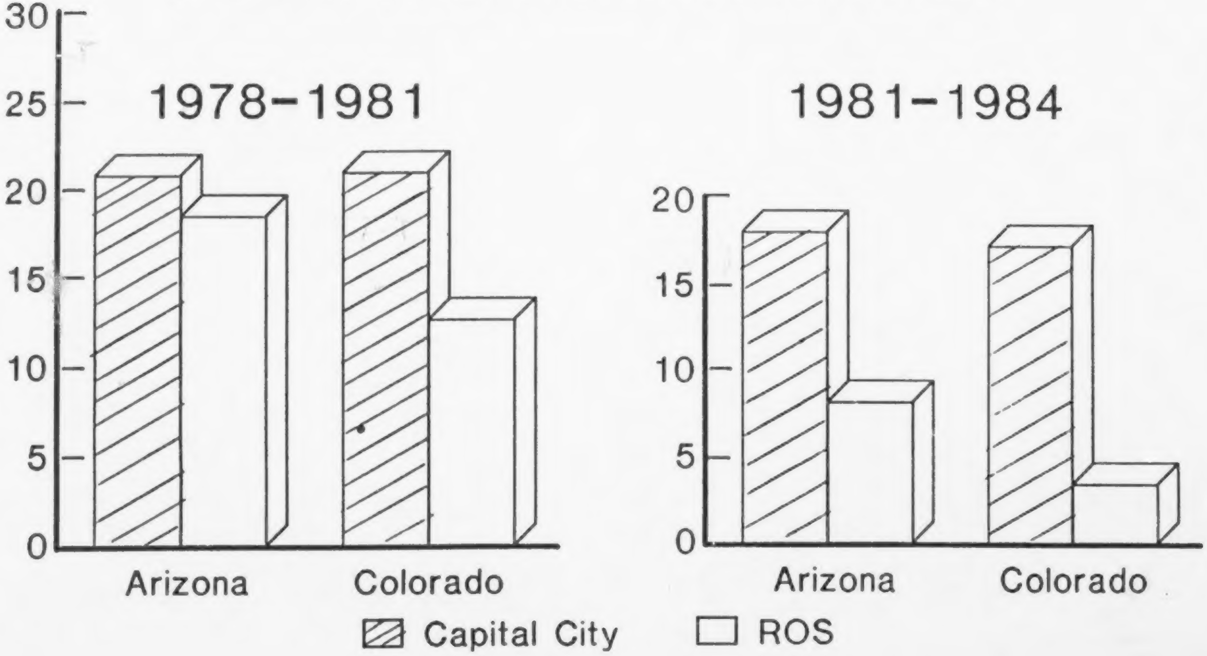
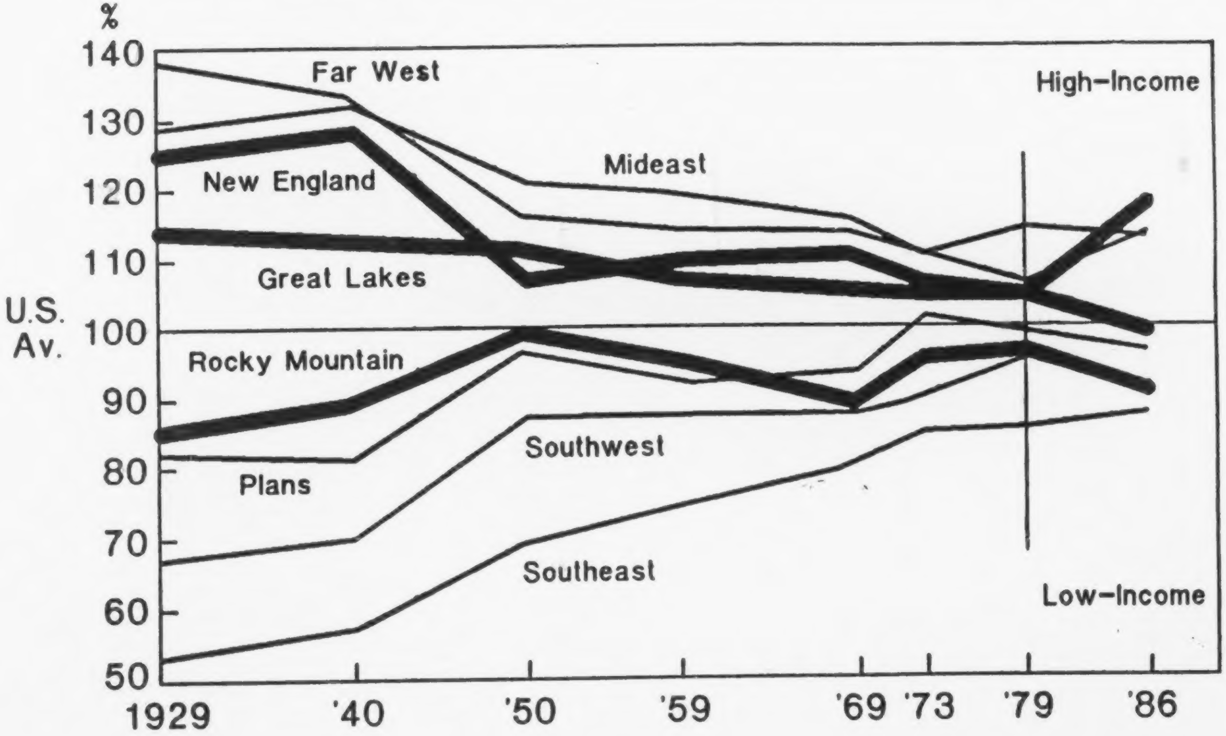
Growth: Selected Western States



Per Capita Personal Income



their traditional markets while having little experience in creating new products or reaching for new markets. The combination has proven to be disruptive in some rural areas, disastrous in others.

Secondly, rural areas tend to have fewer tools, less of a foundation from which to adapt its industries and people to new competitive realities. They tend to be weaker than urban areas in the new "economic infrastructure" critical to competing in the new economy--access to technology, a skilled, adaptable, and entrepreneurial work force, and widely available risk capital for all kinds of business needs. It is in building and strengthening this economic infrastructure where the future of rural America lies.

The following sections review findings from SRI's rural development work with states in every region of the United States. Emerging themes (on industry mix and economic infrastructure) are presented. Then, specific applications of these perspectives in SRI projects for the Appalachian Regional Commission and the state of Nebraska are included.

Traditional Strengths Have Become Weaknesses

As low-cost locations attractive for low-value added, commodity-based manufacturing plants or as areas with extensive natural resources, many rural parts of the country have enjoyed increasing economic success over the last few decades. These strengths, however, have become liabilities in the new economic era of the 1980s. Lower-cost foreign locations are attracting some basic U.S. manufacturing operations or are capturing markets from American natural resource based industries--both at the expense of rural economies.

Because of their traditional dependence on these industries, rural areas are not well-positioned to capture more sophisticated, higher value-added industry. For example, much of the rural work force has narrow skills that are well-suited to once-stable commodity or natural resource based industries, but that are not particularly useful in helping individuals adapt to new marketing, technology, and other demands of today's competitive environment. All in all, rural industries have had difficulty making the transition from traditional, low value-added products to higher value-added products that are in more demand (see chart on demand for new products).

A New Economic Infrastructure is Needed

The traditional development priority given to physical infrastructure and industrial recruitment must be augmented with new strategies based on the demands stemming from technological change and globalization of the economy. Factors such as accessible technology, a skilled and adaptable work force, and capital availability have become more critical to revitalizing existing industries, enabling new enterprise development and economic diversification, and improving the overall competitiveness of rural areas (see chart on new foundations).

Strengthening this new economic infrastructure is important to both urban and rural economies, but rural areas are particularly at risk. Their infrastructure, level of industry synergy, and external economic and other connections are not as well developed. For example, technology transfer capacities are generally limited (except in agriculture), educational institutions are often limited in capacity and have little history of innovation, capital resources for economic revitalization and diversification are usually scarce, and the physical infrastructure is often decaying or inadequate for different kinds of industry. Resource limitations, institutional focus, and economic infrastructure gaps have all become especially important issues in rural development with the advent of new competitive pressures internationally.

Both Near-term and Long-term Infrastructure Capacity is Required.

America's rural economies face challenges to adapt in the near-term to new competition and changing markets and in the long-term to structural shifts in their major industries. For these areas to prosper, they need to

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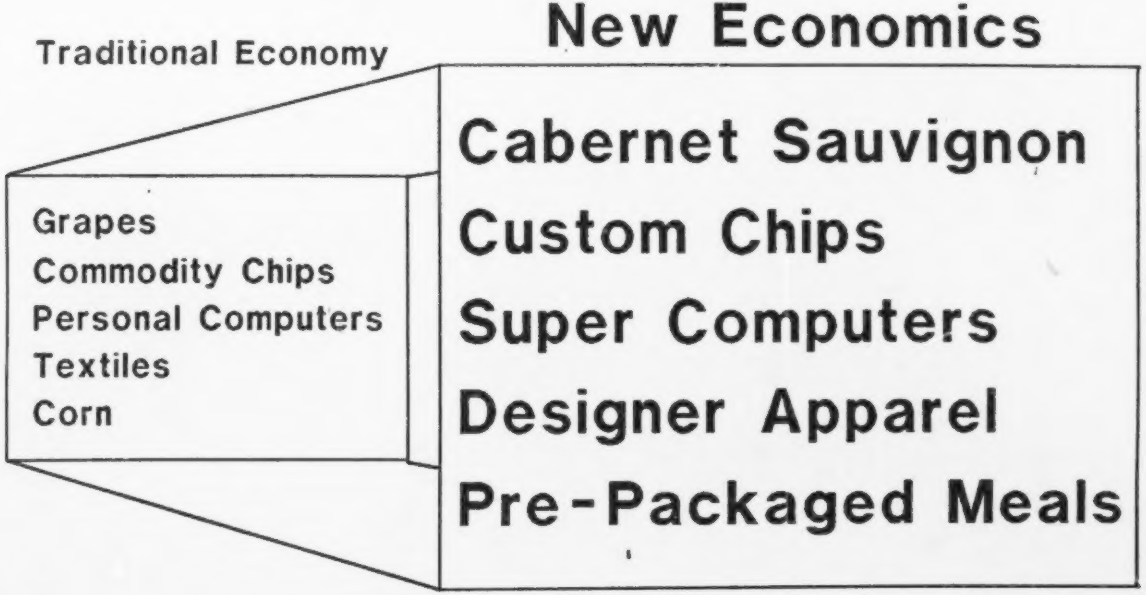
Demand for Products has Changed



Traditional Economy

- Grapes
- Commodity Chips
- Personal Computers
- Textiles
- Corn

New Economics

- Cabernet Sauvignon
- Custom Chips
- Super Computers
- Designer Apparel
- Pre-Packaged Meals

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New Foundations

- Accessible technology
- Skilled and adaptable human resources
- Availablity of capital
- Innovative management climate

possess near-term capacity for adaptation--industry specific mechanisms that meet immediate technology, skill, and capital needs--including customized training, technology transfer, and technical assistance services. For the long-term, they need to possess better foundations for technology development, human resource development, and capital financing through stronger institutions and links to outside resources. In both these cases, rural areas have tended to have weaker capacities than their urban counterparts (see charts on resources of different U.S. regions).

Rural Economies Should Not Be Perceived as Special Cases

Rural areas are faced with many of the same competitive challenges as urban America. They should not be compartmentalized as "special cases" only suited for traditional bailouts or low-end development strategies. This emphasis discourages or at least distracts rural areas from adapting to today's new competitive realities--to meeting the marketing, technology, and human resource development needs for successful transformation.

As policymakers consider new rural development options, they must realize that strategies to improve rural economic infrastructure must go beyond traditional efforts. An isolated small business development program or local economic development marketing effort is clearly not enough. Likewise, responsibility for rural assistance must go beyond state departments of agriculture and economic development and encompass all agencies and institutions that contribute (or could contribute) to rural economic infrastructure.

Of course, this is not to say that urban and rural development strategies should be basically the same. Rural economic infrastructure is less able to support the kind of development that urban infrastructure is. Policymakers should be sensitive to this difference. However, they should not as a result isolate rural concerns in the policymaking process, in effect treating these areas as "special cases" and lowering expectations (and levels

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Availability of Resources Varies

	Accessible Technology
Pacific	○
Mountain	▨
W.N. Central	▦
W.S. Central	▦
E.S. Central	▦
Midwest	▨
Mid Atlantic	○
South Atlantic	▨
New England	○

Indicators of Economic Capacity: Top ○ Middle ▨ Bottom ▦

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Availability of Resources Varies

	Accessible Technology	Human Resources
Pacific	○	○
Mountain	▨	○
W.N. Central	▦	▦
W.S. Central	▦	▨
E.S. Central	▦	▦
Midwest	▨	▨
Mid Atlantic	○	▨
South Atlantic	▨	▦
New England	○	○

Indicators of Economic Capacity: Top ○ Middle ▨ Bottom ▦

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Availability of Resources Varies

	Accessible Technology	Human Resources	Capital Availability
Pacific	○	○	○
Mountain	▨	○	▦
W.N. Central	▦	▦	▦
W.S. Central	▦	▨	▨
E.S. Central	▦	▦	▦
Midwest	▨	▨	▨
Mid Atlantic	○	▨	○
South Atlantic	▨	▦	▨
New England	○	○	○

Indicators of Economic Capacity: Top ○ Middle ▨ Bottom ▦

of support) for true economic transformation. In the case of rural economies, serious attention needs to be paid to institutional capacity-building and reform--a focus that may require more carefully targeted effort and resources, but one that seeks to improve long-term prospects for competitiveness.

Different Rural Economies Require Different Kinds of Assistance

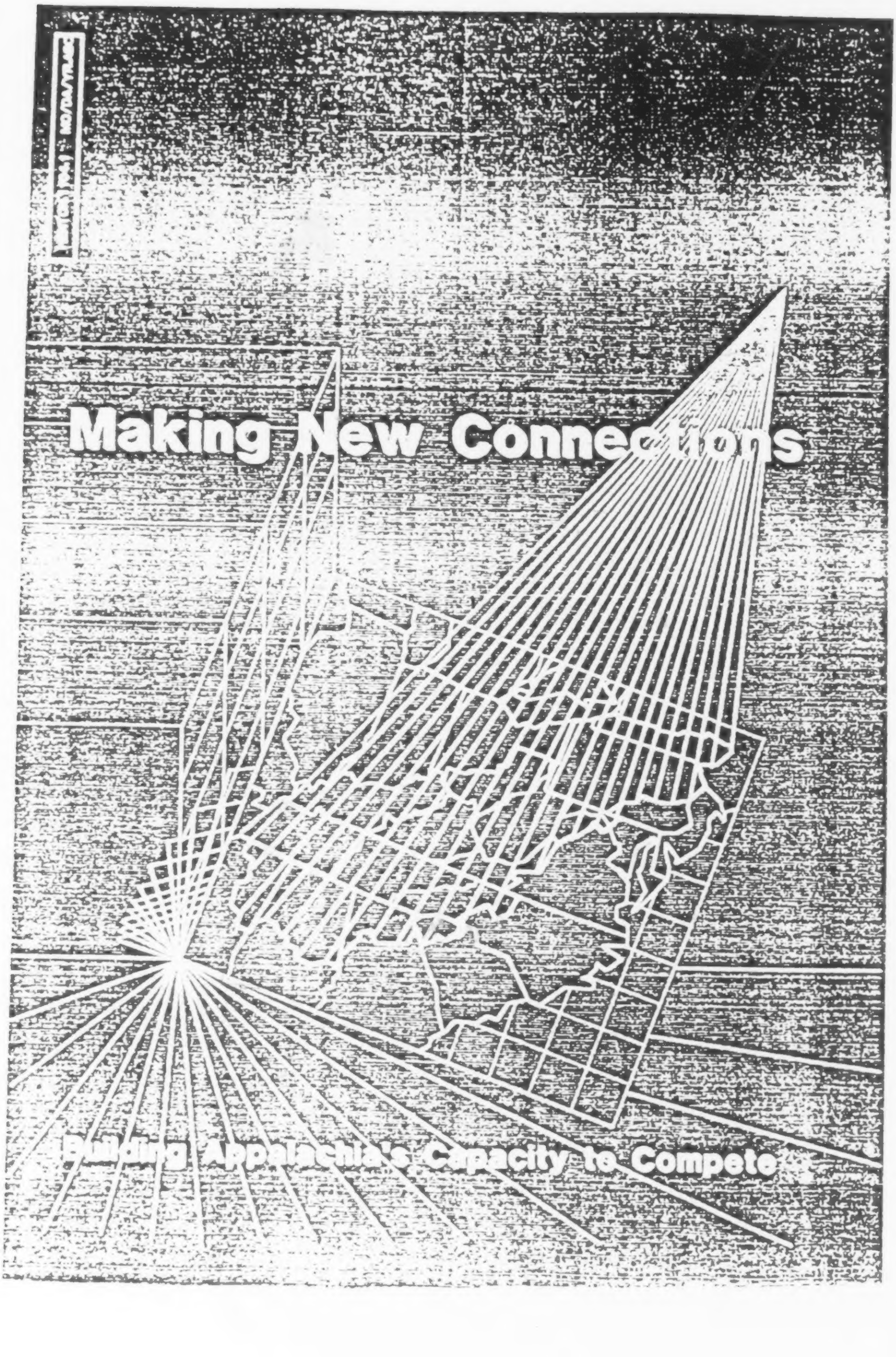
Rural areas across the country have very different economic makeups, infrastructure capacities, and leadership capabilities. Some are extremely hard-hit by international competition and other forces, and require the most basic of assistance simply to stabilize their economies and head off further decline. Others are ready to adapt, their industries and people sufficiently prepared to push for institutional changes, engage in new kinds of acitivities, and benefit from purposeful state and federal infrastructure investments. Still others are poised for economic growth, able to build on a history of adaptation and innovation and benefit from more advanced infrastructure investments and links to urban economies. The key is to recognize these differences in rural areas and target appropriate kinds of assistance that fit their needs and capacities.

Profiles of SRI Rural Economic Development Projects

Of the projects SRI has conducted in states and regions across the country, those with the Appalachian Regional Commission and the state of Nebraska illustrate particularly well some of the "new thinking" about rural economic development. What follows are highlights from those two studies.

Making Connections: New Directions for Rural Appalachia

Once isolated physically, economically, and culturally for many years Appalachia lagged the nation by wide margins in employment, health care, personal income, and transportation systems. In the last two decades the



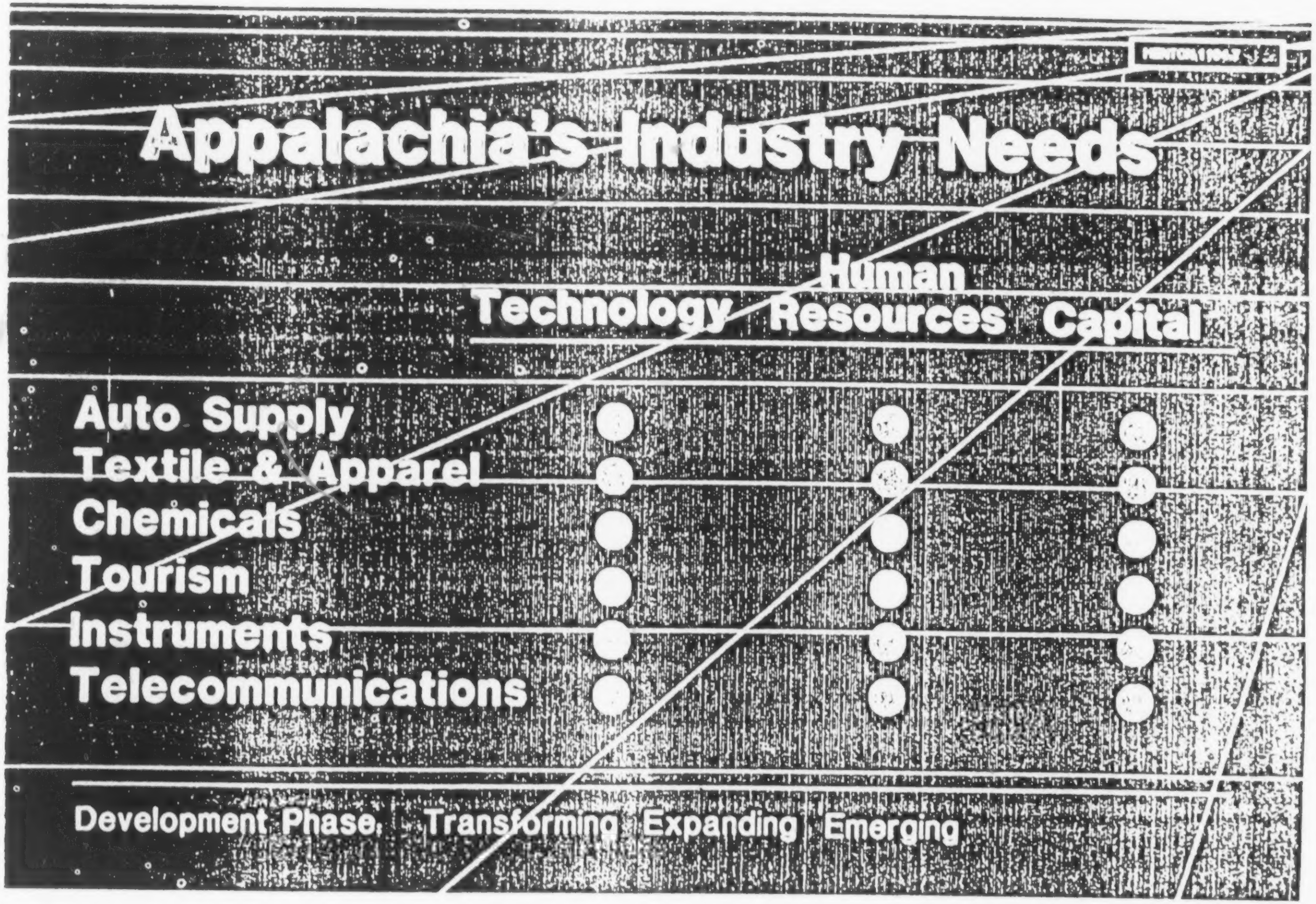
Making New Connections

Building Appalachia's Capacity to Compete region has reduced its disadvantages dramatically. Unemployment is less than two percent greater than the national average and the percentage of Appalachians living in poverty is now closer to that of the nation as a whole. Systems of roads, medical care facilities, and educational institutions have been created to bring the fruits of progress to more of its people.

The region, however, continues to fight to come closer to a moving target--the performance of the rest of the country. While average income has risen and the region's economic structure has achieved greater similarity to that of the country as a whole, the world in which the U.S. and Appalachia must compete has undergone a rapid, wrenching change. The impact of that change is being felt with greater severity than in the rest of the country because of its greater proportion of affected industries.

To promote competitiveness under these circumstances, the Appalachian Regional Commission worked with SRI International to gain a fuller understanding of the nature and potential of the region's economic base and of the opportunities to forge stronger connections between the existing economy and new foundations for competitiveness--access to technology, a skilled, adaptable, and entrepreneurial work force, and access to capital. The challenge for Appalachia is to build a new kind of infrastructure--a new economic infrastructure--that when added to the physical infrastructure so carefully developed over recent decades, will thrust the region into a more productive role in the evolving national and world economies.

After a diagnosis of the region's industrial base, it became clear that not only is a new economic infrastructure needed, but one that serves both near-term and long-term challenges. Many firms in rural Appalachia face difficulties in meeting their near-term technology, human resource, and capital needs and are disproportionately vulnerable to the impact of change (see chart on Appalachia industry needs). Many in effect are second-tier producers, with limited if any access to quality inputs needed to compete at a high level. In many cases, the region's existing industrial extension, technical assistance, and infrastructure financing programs are too small or



Appalachia's Industry Needs

	Technology	Human Resources	Capital
Auto Supply	●	●	●
Textile & Apparel	●	●	●
Chemicals	●	●	●
Tourism	●	●	●
Instruments	●	●	●
Telecommunications	●	●	●

Development Phase: Transforming Expanding Emerging have other limitations that make it difficult for them to serve the need adequately. Current efforts need to be expanded and reoriented to meet the requirements of existing firms as well as to build new capacity where it does not already exist.

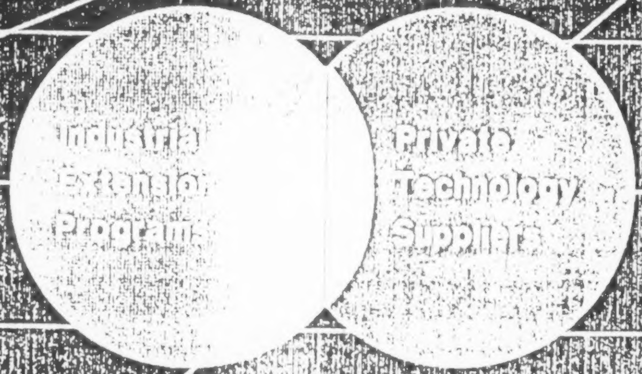
To address near-term infrastructure needs, some of the following strategies were recommended (see chart on near-term infrastructure):

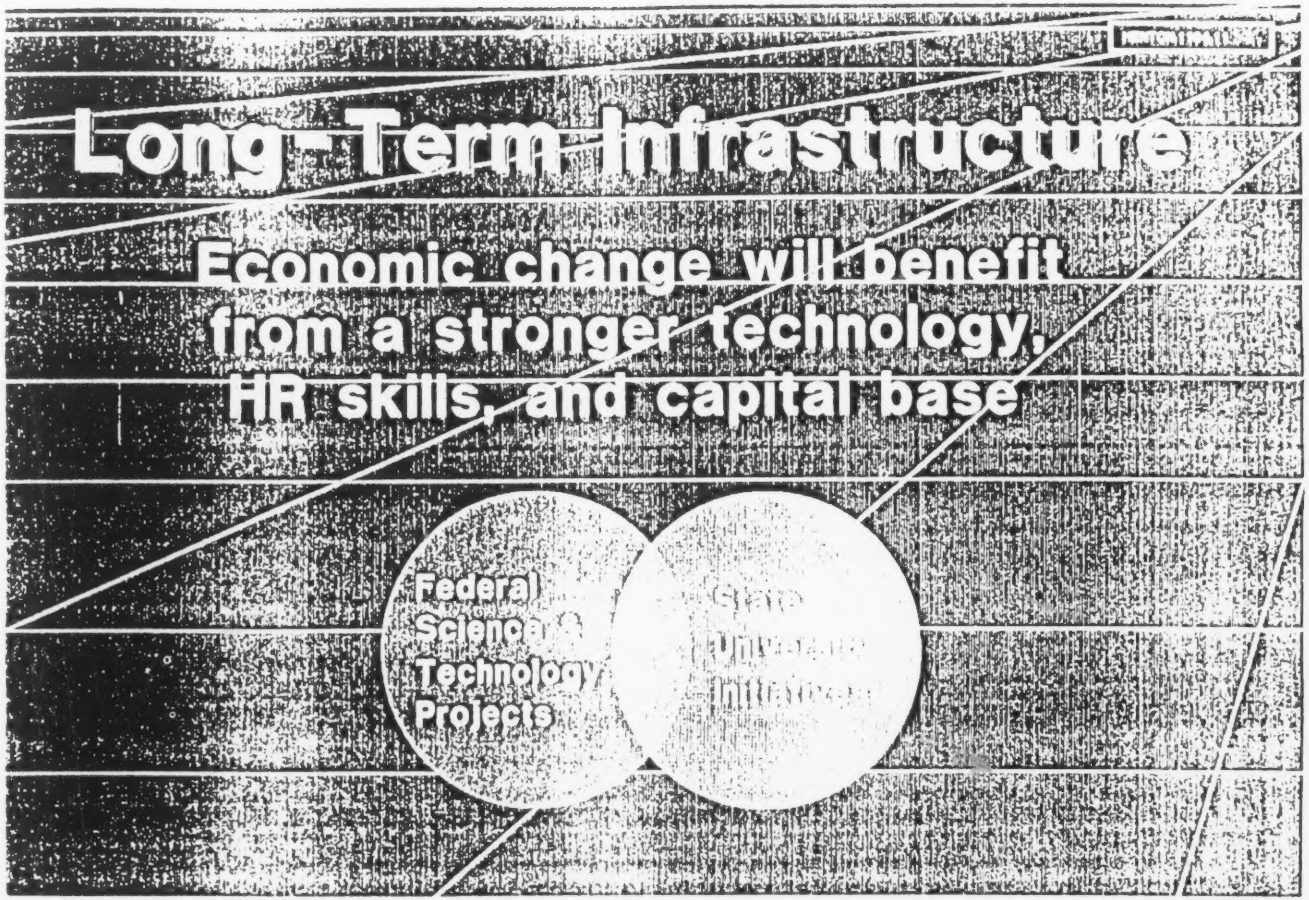
- Near-term technology accessibility. Expand successful state and local industrial extension programs (such as those in Georgia, North Carolina, and Pennsylvania); work with private vendors and industry associations to expand their capacity to reach smaller companies; link technology assistance explicitly with training and capital assistance programs to address multiple needs in new technology adoption.
- Near-term human resource development. Better coordinate public programs with private industry; use new techniques such as telecommunications to improve education and training outreach throughout region; pursue higher education as well as elementary and secondary education reforms reflecting the increased importance of continuing education and lifelong learning in a highly competitive business environment.
- Near-term capital availability. Leverage private capital resources with public seed funds for new kinds of business investment; reduce information costs for private investors; provide brokerage to link entrepreneurs with potential private investors; understand different financing needs at different points of industry life cycle and target assistance accordingly.

Appalachia needs to build its long-term infrastructure capacity as well. The region needs to have a better overall foundation of R&D sources, education and training capacity, and financial wherewithal. The magnitude of the investments required is great and making them will not be easy because resources are limited and parts of the region's long-term infrastructure are relatively weak. Based on a regional diagnosis, recommendations for strengthening long-term economic infrastructure included (see chart on long-term infrastructure):

Near-Term Infrastructure

Create stronger
public/private resources
to meet immediate needs


Industrial
Extension
Programs
Private
Technology
Suppliers



Long-Term Infrastructure

Economic change will benefit
from a stronger technology,
HR skills, and capital base

Federal
Science &
Technology
Projects

State
University
Initiatives

- Long-term technology accessibility. Build interdisciplinary strengths in strategic technology areas relevant to regional industry needs; encourage university faculty to become more involved in applied R&D appropriate to private sector needs; encourage industry-university consortia; strengthen technology transfer mechanisms at all institutions.

- Long-term human resource development. Sustain the reform movement in education, with particular attention to dropout prevention and literacy programs, to enhance current and future strength of work force; develop education partnerships (curriculum input, financial support, and hiring of graduates) to smooth school-to-work transition; strengthen infrastructure to reduce "brain drain" (e.g., continuing education opportunities, rich cultural and recreational amenities, quality schools for top children).

- Long-term capital availability. Develop policy incentives to stimulate capital markets in terms of quantity and targeting of lending resources (e.g., interstate banking, linked deposits, community reinvestment); improve ability of institutions to invest in new or nontraditional areas by providing education to lenders; reduce disincentives to invest via loan guarantees, loan loss reserves, etc., in small enterprises that serve as the basis for Appalachia's future economy.

It is clearly a time of opportunity for rural Appalachia. Making the most out limited resources is no new challenge to the region. Although its economic disadvantage has been narrowed, the economic challenges facing Appalachia have increased many fold in the last decade. It must now forge new and stronger connections both inside and outside of the region to harness the ingenuity of its people and capitalize on new opportunities for growth.

The key will be the wise and creative use of resources, linking the power of educational institutions to the industrial base, linking technical and financial centers with job-creating enterprise in more remote regions, linking the power of private enterprise with public policy for a competitive Appalachia. By concentrating on the new economic infrastructure, the region has helped introduce a new era in rural economic development.

Nebraska: New Seeds for Developing the Next Economy

In the past, Nebraska's competitive advantages were based on its superb natural resources and hard-working people. Today, these advantages are no longer adequate to ensure prosperity (see chart on Nebraska's industry problems). A new economic infrastructure involving technology, human resources, and capital is important in today's increasingly challenging economic environment. Unfortunately, Nebraska finds itself comparatively weak in many of these areas.

The directions for Nebraska's economic development strategies are clear. Although the state may be tempted to focus primarily on its narrow economy-in effect, plowing the same ground better--it must instead work to build a diversified economy--that is, open new fields. Nebraska can focus simply on the short term, but it should focus on both the short and long terms by inveting strategically in new foundations for economic development. Finally, with the lack of apparent "big bang" opportunities to target, the state must seek incremental improvements, sector by sector. In short, there is no "easy" path to follow.

Realistically, Nebraska should aim to improve its economy at the margin and expect small near-term gains to multiply into substantial gains in the medium to long term. Such a strategy is vastly preferable to simply "waiting it out" (betting that world economic conditions will soon improve), attempting to "muddle through," or seeking illusory "quick fixes." Such actions simply will not address the state's deep-rooted structural problems.

Nebraska now must address its broader economic needs. At this time a comprehensive, cost-sensitive investment strategy is needed most to diversify and develop Nebraska's economy. Such a strategy would focus on making the necessary investments in the essential economic foundations of the state, without hurting the improved business climate (see charts on historic and new competitive advantages).

New Seeds for Nebraska

Strategies for building the next economy

SRI International

Today, Nebraska's Industries are:

- Losing competitive edge
- Shifting from manufacturing to services
- Showing fewer starts, more failures
- Lagging in international exports
- Too closely linked to negative trends in agriculture

This Requires That Historic Competitive Advantages

- Good land
- Plenty of water
- Hard working people

must be blended with. . .

New Competitive Advantages

- Access to technology
- Skilled & adaptable workforce
- Available capital
- Entrepreneurship
- High quality of life
- Forward-looking physical infrastructure
- Competitive regulatory & tax environment

Given the challenges it faces, Nebraska needs a three-part strategic framework to:

(1) Keep industries competitive.

(2) Keep people competitive.

(3) Keep places competitive.

Keep Nebraska's Industries Competitive

To promote the competitiveness of Nebraska industry and to promote diversification, each sector of the state's economy requires it own program of action.

- Redirect Agriculture: Adapt to Global Realities

  Nebraska must move aggressively to redirect the state's dominant economic sector by: Providing farmers with applied research results, advanced education, alternative agriculture demonstrations, "hands-on" technical assistance emphasizing direct marketing, and creative financing for new products, new crops, and new procedures; promoting the use of new management technologies on farms; removing regulatory barriers to the transition of agriculture; promoting farm entrepreneurship.

- Expand into High-Value-Added Food Processing: Reach Expanding Markets with Nebraska's Products

  Food processing opportunities have been prominent topic of discussion for many years. If food processors were more market sensitive and the needed economic infrastructure were in place, the industry cold expand into higher-value-added processing. Specific steps should include: Supporting the growth of new food processing operations with the necessary physical infrastructure; applying new management and production technologies to develop new kinds of products, processing, and packaging, as well as new marketing approaches.

- Diversify Manufacturing: Reduce the Dependence Link with Agriculture

  The manufacturing sector depends too much on agriculture as its primary customer. Opportunities to diversify manufacturing toward higher-value-added products include: Specialized industrial chemicals; basic and advanced pharmaceuticals; computer-aided printing/publishing; medical-scientific instruments. Pushing into new markets will require: Promoting more flexible and advanced processing; encouraging the education and training system to develop advanced skills and new adaptability in the work force; harnessing new sources of capital; creating a climate for entrepreneurship.

- Expand Export-Oriented Services: Become New regional Service Center

  The growing traded-services sector is the best evidence that the state's economy is becoming more diversified. Areas of opportunity still to be exploited include: Experience-based tourism, especially in areas with rich history; new, specialized insurance products; specialized health care; advanced computer-based and satellite=supported telecommunications services.

Keep Nebraska's People Competitive

The two main components of a strategy to upgrade the human resource base are as follows:

- Enhance Work Force Skills and Adaptability: Prepare for the Next Economy

  In the future, Nebraskans must continually acquire new skills. Otherwise, fast-changing technology and market shifts could force repeated displacement of nonadaptive, skill-bound workers. Specific needs include: Advanced agricultural education and retraining, especially in management skills, marketing, and finance; continuing education and training for manufacturing workers and managers (especially in food processing) in the use of advanced (often computer-assisted) manufacturing processes; provision of new technical skills for workers in the traded services sector, such as in computer operation, use of specialized equipment, and advanced telecommunications.

- Target Innovation: Focus on Enhancing Entrepreneurship

  Nebraska grew strong because entrepreneurial, hard-working people seized opportunities to raise cattle and grow corn and other crops for expanding markets. Today, increasingly noncompetititve industries need to be revitalized, and new businesses must be started in emerging and changing fields. New approaches are needed in: Agriculture, where a new entrepreneurial approach may be the only way to stimulate the sector; food processing, where innovative businesses can meet fast-changing consumer demands as food preferences change; manufacturing, where producing higher-value products and pursuing new markets require investment in more sophisticated equipment; traded services, where businesses and consumers want more services, new services, and, in most cases, faster service.

Keep Nebraska's Places Competitive

Many residents of the Panhandle area feel increasingly closer to Denver, Cheyenne, and Casper than to Omaha and Lincoln. Southern Nebraska residents often feel drawn toward the urban areas of Kansas. It seems that urban areas are becoming uncoupled from the rural areas. Therefore, the third major strategy is to reconnect the state by building new regional capacity.

- Rebuild Linkages: Improve Connections Between Urban and Rural Places

  This strategy has three elements: Improve statewide communications, transportation, and institutional infrastructure (e.g., education, government); promote specific economic (e.g., branch plant siting) and noneconomic (e.g., cultural) linkages between urban and regional centers; provide transition assistance--if necessary, through new state programs--for small rural places that are facing severe decline.

- Strengthen Economic Capacity: Promote Regional Growth Centers

  The intermediate-size communities have the potential for becoming regional growth areas--new economic wellsprings for the state. In Nebraska is to develop its regional centers, it must: Encourage a variety of university, state college, and technical school expansions in selected growth centers, both to train and educate area residents and to promote entrepreneurship; ensure the presence of both traditional and advanced physical infrastructure; encourage regional growth centers to support the employment needs of surrounding rural places; ensure an adequate revenue base in intermediate-size areas by improving the organization and efficiency of public services (e.g., city and county governments, school districts) andmethods of levying taxes.

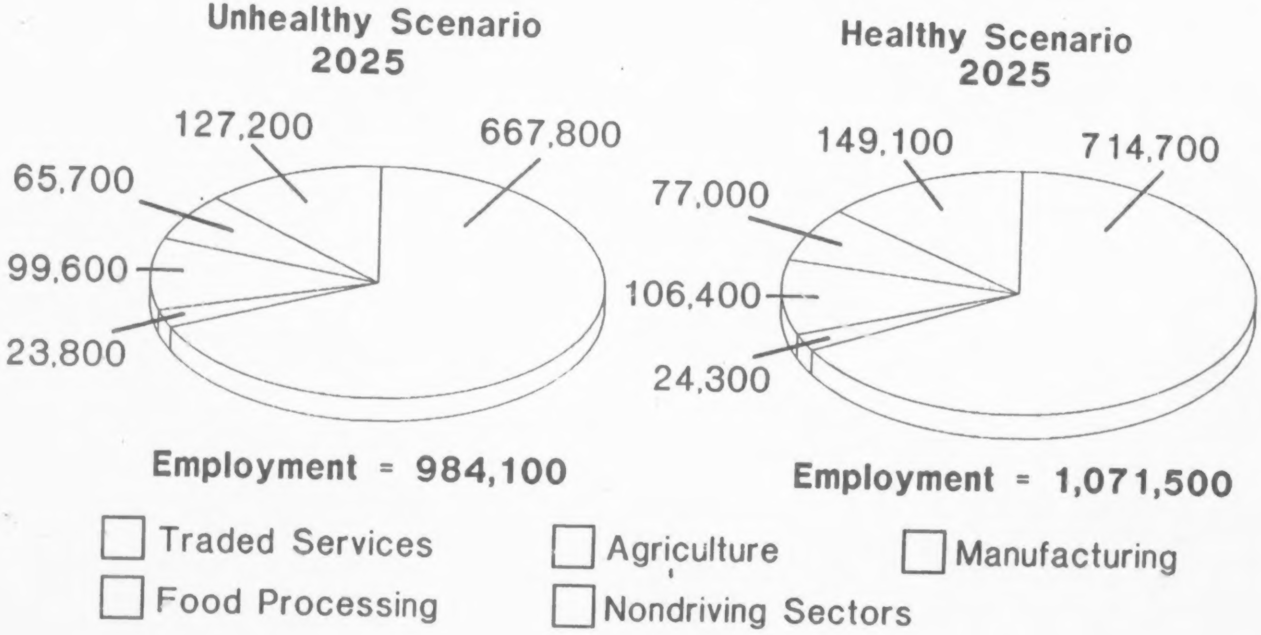
With these economic infrastructure investments and institutional changes, Nebraska can position its largely rural economy for a prosperous future (see chart on Nebraska's future economy). But regaining control over its own destiny will require unprecented collaboration among the state's public and private sectors and a commitment to innovation at all levels (see chart on Nebraska's destiny). In sum, the future of rural America will depend on how successful public (including federal, state, and local government) and private sectors work together to build the new economic infrastructure necessary to be competitive in the global economy (see chart on economic infrastructure).

Implications for Federal Policy

The federal government can play an important role in promoting the adaptation and development of rural America. Perpetuation of traditional ways of doing business or stop-gap measures to ease distress do little to prepare rural people, places, and industries to prosper in today's and tomorrow's global economy. Some promising efforts to build and strengthen economic infrastructure have emerged at the state and local levels. The federal government could play a more central role in funding evaluations of recent grassroots experimentation and new demonstrations to test other innovative approaches. In some cases, the best role for the federal government is to help successful state and local programs expand to reach more rural people, places, or industries that are at risk.

The federal government can also play a useful role in promoting regional cooperation among states. In cases where economic regions overlap political boundaries, it could be wise to combine efforts to meet rural economic infrastructure needs. Finally, more federal-state government coordination to target resources more effectively and build critical masses of economic infrastructure would be helpful. This coordination should go beyond the respective departments of agriculture and encompass all state and federal agencies that have an impact (or could have an impact) on economic infrastructure capacity in rural America.

Driving Sectors of Nebraska's Future Economy



Regaining control over the state's destiny requires that:

- Industries
- Colleges and universities
- Public agencies

rebuild the ability to compete

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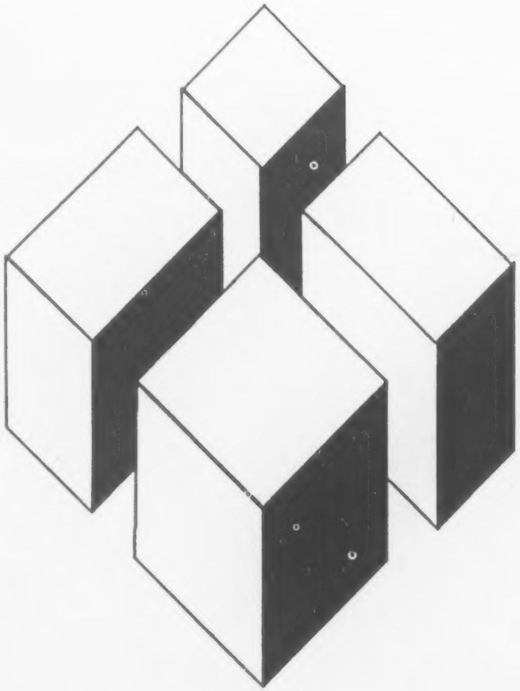


Building
Economic
Infrastructure

NEW PERSPECTIVES ON RURAL DEVELOPMENT

Testimony of Steven A. Waldhorn

Subcommittee on Rural Economy & Family Farming
Committee on Small Business
United States Senate
June 29, 1988

States across the country are rethinking their rural development strategies in light of new world economic realities. Although rural areas face different challenges than urban areas, it is clear that they too must be prepared to compete in an increasingly challenging environment. This testimony reviews emerging perspectives on the challenge of rural development and how to address it.

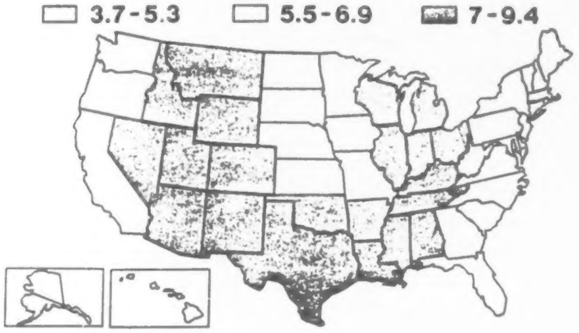
Across the country, U.S. regions seem to be diverging, with more urbanized coastal states faring better than more rural states in the American heartland (see Exhibit 1). Regions that enjoyed significant growth in the 1970s (such as the resource-rich mountain states—see Exhibit 2) have slipped in the 1980s with dropping world commodity prices and intensifying international competition. Overall, the 50-year trend of converging U.S. regions seems to have been broken in the 1980s (see Exhibit 3), calling attention to individual regions and their capacity to compete.

A closer examination of the problem reveals that a growing rural–urban split seems to be taking place. The source of this divergence is twofold. First, rural areas tend to be at a competitive disadvantage because of their industry mix and structure. They also tend to be dependent on just a few industries; these industries also happen to be the ones most affected by increasing foreign competition. Such industries have traditionally had fairly stable, growing markets. Today, they face lower-cost competition in their traditional markets, but they have little experience in creating new products or reaching for new markets. The combination has proven to be disruptive in some rural areas, disastrous in others.

Second, rural areas tend to have fewer tools—less of a foundation from which to adapt their industries and people to new competitive realities. They tend to be weaker than urban areas in the new "economic infrastructure" that is critical to competing in the new economy: access to technology; a skilled, adaptable, and entrepreneurial work force; and widely available risk capital for all kinds of business needs. It is in building and strengthening this economic infrastructure that the future of rural America lies.

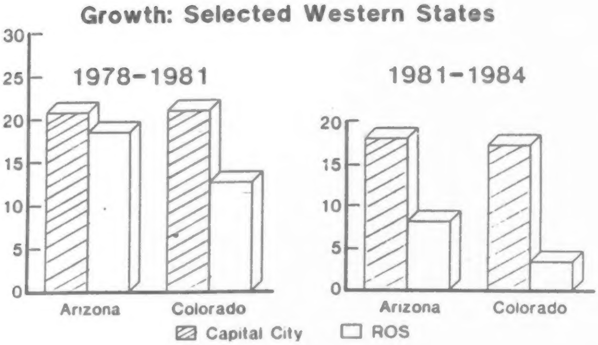
The following sections review findings from SRI's rural development work with states in every region of the United States. Emerging themes on industry mix and economic infrastructure are presented. Then, specific applications of these perspectives in SRI projects for the Appalachian Regional Commission and the state of Nebraska are included.

Exhibit 1



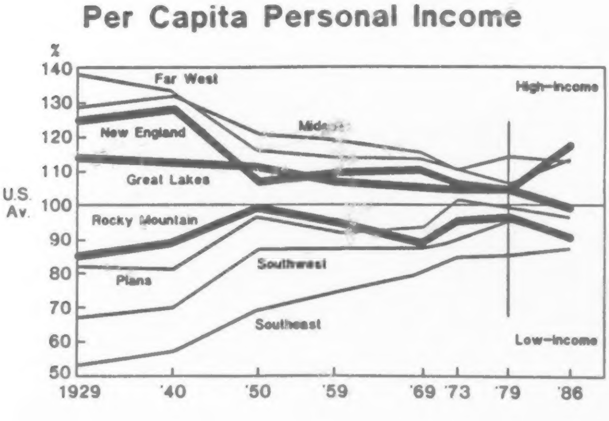
Unemployment Rate for U.S. Regions 1987

Exhibit 2



Growth: Selected Western States

Exhibit 3



Per Capita Personal Income

Emerging Themes in Rural Development

Traditional Strengths Have Become Weaknesses

As low-cost locations attractive for low-value-added, commodity-based manufacturing plants or as areas with extensive natural resources, many rural parts of the country enjoyed increasing economic success over the last few decades. These strengths, however, have become liabilities in the new economic era of the 1980s. Lower-cost foreign locations are attracting some basic U.S. manufacturing operations or are capturing markets from American natural-resource-based industries—both at the expense of rural economies.

Because of their traditional dependence on these industries, rural areas are not well positioned to capture more sophisticated, higher-value-added industry. For example, much of the rural work force has narrow skills that are well suited to once-stable commodity or natural-resource-based industries, but that are not particularly useful in helping individuals adapt to the new marketing, technology, and other demands of today's competitive environment. All in all, rural industries have had difficulty making the transition from traditional, low-value-added products to higher-value-added products that are in more demand.

A New Economic Infrastructure Is Needed

The traditional development priority given to physical infrastructure and industrial recruitment must be augmented with new strategies based on the demands stemming from technological change and globalization of the economy. Factors such as accessible technology, a skilled and adaptable work force, and capital availability have become more critical to revitalizing existing industries, enabling new enterprise development and economic diversification, and improving the overall competitiveness of rural areas.

Strengthening this new economic infrastructure is important to both urban and rural economies, but rural areas are particularly at risk. Their infrastructure, level of industry synergy, and external economic and other connections are not as well developed. For example, technology transfer capacities are generally limited (except in agriculture), educational institutions are often limited in capacity and have little history of innovation, capital resources for economic revitalization and diversification are usually scarce, and the physical infrastructure is often decaying or inadequate for different kinds of industry. Resource limitations, institutional focus, and economic infrastructure gaps have all become especially important issues in rural development with the advent of new competitive pressures internationally.

Both Near-Term and Long-Term Infrastructure Capacity Is Required

America's rural economies face challenges to adapt in the near term to new competition and changing markets, and in the long term to structural shifts in their major industries. For these areas to prosper, they need to possess near-term capacity for adaptation—industry-specific mechanisms that meet immediate technology, skill, and capital needs—including customized training, technology transfer, and technical assistance services. For the long term, they need to possess better foundations for technology development, human resource development, and capital financing through stronger institutions and links to outside resources. In both these cases, rural areas have tended to have weaker capacities than their urban counterparts (see Exhibit 4).

Rural Economies Should Not Be Perceived as Special Cases

Rural areas are faced with many of the same competitive challenges as urban America. They should not be compartmentalized as "special cases" only suited for traditional bailouts or low-end development strategies. This emphasis discourages—or at least distracts—rural areas from adapting to today's new competitive realities: from meeting their marketing, technology, and human resource development needs for successful transformation.

As policymakers consider new rural development options, they must realize that strategies to improve rural economic infrastructure must go beyond traditional efforts. An isolated small-business development program or local economic development marketing effort is clearly not enough. Likewise, responsibility for rural assistance must go beyond state departments of agriculture and economic development and encompass all of the agencies and institutions that contribute (or that could contribute) to the development and improvement of rural economic infrastructure.

Of course, this is not to say that urban and rural development strategies should be basically the same. Rural economic infrastructure is less able to support the kind of development that urban infrastructure can support. Policymakers should be sensitive to this difference. However, they should not as a result isolate rural concerns in the policymaking process, in effect treating these areas as "special cases" and lowering expectations (and levels of support) for true economic transformation. In the case of rural economies, serious attention needs to be paid to institutional capacity-building and reform—a focus that in the near term may require more carefully targeted effort and resources, but that seeks to improve long-term prospects for competitiveness.

Different Rural Economies Require Different Kinds of Assistance

Rural areas across the country have very different economic makeups, infrastructure capacities, and leadership capabilities. Some are extremely hard-hit by international competition and other forces, and require the most basic of assistance simply to stabilize their economies and head off further decline. Others are ready to adapt: their industries and people are prepared to push for institutional changes, engage in new kinds of acitivities, and benefit from purposeful state and federal infrastructure investments. Still others are poised for economic growth, able to build on a history of adaptation and innovation and benefit from more advanced infrastructure investments and links to urban economies. The key is to recognize these differences in rural areas and target appropriate kinds of assistance that fit their needs and capacities.

Exhibit 4

Availability of Resources Varies

	Accessible Technology	Human Resources	Capital Availability
Pacific	○	○	○
Mountain	▨	○	▩
W.N. Central	▩	▩	▩
W.S. Central	▩	▨	▨
E.S. Central	▩	▩	▩
Midwest	▨	▨	▨
Mid Atlantic	○	▨	○
South Atlantic	▨	▩	▨
New England	○	○	○

Indicators of Economic Capacity: Top ○ Middle ▨ Bottom ▩

Two Approaches to Rural Economic Development

Of the projects SRI has conducted in states and regions across the country, those with the Appalachian Regional Commission and with a citizens' coalition in Nebraska illustrate particularly well some of the "new thinking" about rural economic development. What follows are highlights from those two studies.

Making Connections: New Directions for Rural Appalachia

Once isolated physically, economically, and culturally, for many years Appalachia lagged the nation by wide margins in employment, health care, personal income, and transportation systems. In the last two decades the region has reduced its disadvantages dramatically. Unemployment is less than 2% greater than the national average, and the percentage of Appalachians living in poverty is now closer to that of the nation as a whole. Systems of roads, medical care facilities, and educational institutions have been created to bring the fruits of progress to more of its people.

The region, however, continues to fight to come closer to a moving target: the performance of the rest of the country. While average income has risen and the region's economic structure has achieved greater similarity to that of the country as a whole, the world in which the nation and Appalachia must compete has undergone a rapid, wrenching change. Appalachia is feeling the impact of that change more severely than the rest of the country because of its greater proportion of affected industries.

To promote competitiveness under these circumstances, the Appalachian Regional Commission worked with SRI International to gain a fuller understanding of the nature and potential of the region's economic base and of the opportunities to forge stronger connections between the existing economy and the new foundations for competitiveness: access to technology; a skilled, adaptable, and entrepreneurial work force; and access to capital. The challenge for Appalachia is to build a new kind of infrastructure—a new economic infrastructure—that, when added to the physical infrastructure that has been so carefully developed over recent decades, will thrust the region into a more productive role in the evolving national and world economies.

After a diagnosis of the region's industrial base, it became clear that the required new economic infrastructure must serve both near-term and long-term needs. Many firms in rural Appalachia face difficulties in meeting their near-term technology, human resource, and capital needs and are disproportionately vulnerable to the impact of change. Many in effect are second-tier producers, with limited if any access to inputs of the quality needed to compete at a high level. In many cases, the region's existing industrial extension, technical assistance, and infrastructure financing programs are too small or have other limitations that make it difficult for them to serve the need adequately. Current efforts need to be expanded and reoriented to meet the requirements of existing firms as well as to build new capacity where it does not already exist.

To address near-term infrastructure needs, some of the following strategies were recommended:

- *Near-term technology accessibility.* Expand successful state and local industrial extension programs (such as those in Georgia, North Carolina, and Pennsylvania); work with private vendors and industry associations to expand their capacity to reach smaller companies; link technology assistance explicitly with training and capital assistance programs to address multiple needs in adoption of new technology.

- MINear-term human resource development. Better coordinate public programs with private industry; use new techniques such as telecommunications to improve education and training outreach throughout the region; pursue higher education as well as elementary and secondary education reforms reflecting the increased importance of continuing education and lifelong learning in a highly competitive business environment.

- *Near-term capital availability.* Leverage private capital resources with public seed funds for new kinds of business investment; reduce information costs for private investors; provide brokerage to link entrepreneurs with potential private investors; understand different financing needs at different points of industry life cycles and target assistance accordingly.

Appalachia needs to build its long-term infrastructure capacity as well. The region needs to have a better overall foundation of R&D sources, education and training capacity, and financial wherewithal. The magnitude of the investments required is great, and making them will not be easy because resources are limited and parts of the region's long-term infrastructure are relatively weak. Based on a regional diagnosis, recommendations for strengthening long-term economic infrastructure included:

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Realistically, Nebraska should aim to improve its economy at the margin and expect small near-term gains to multiply into substantial gains in the medium to long term. Such a strategy is vastly preferable to simply "waiting it out" (betting that world economic conditions will soon improve), attempting to "muddle through," or seeking illusory "quick fixes." Such actions simply will not address the state's deep-rooted structural problems.

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Given the challenges it faces, Nebraska needs a three-part strategic framework to:

- Keep industries competitive.
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- Keep places competitive.

Keep Nebraska's Industries Competitive

To promote the competitiveness of Nebraska's industries and to promote diversification, each sector of the state's economy requires it own program of action.

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  Nebraska must move aggressively to redirect the state's dominant economic sector by providing farmers with applied research results, advanced education, alternative agriculture demonstrations, "hands-on" technical assistance emphasizing direct marketing, and creative financing for new products, new crops, and new procedures; promoting the use of new management technologies on farms; removing regulatory barriers to the transition of agriculture; and promoting farm entrepreneurship.

- *Expand into High-Value-Added Food Processing: Reach Expanding Markets with Nebraska's Products*

  Food processing opportunities have been a prominent topic of discussion for many years. If food processors were more market sensitive and the needed economic infrastructure were in place, the industry could expand into higher-value-added processing. Specific steps should include supporting the growth of new food processing operations with the necessary physical infrastructure, and applying new management and production technologies to develop new kinds of products, processing, and packaging, as well as new marketing approaches.

- *Diversify Manufacturing: Reduce the Dependence Link with Agriculture*

  The manufacturing sector depends too much on agriculture as its primary customer. Opportunities to diversify manufacturing toward higher-value-added products include specialized industrial chemicals, basic and advanced pharmaceuticals, computer-aided printing/publishing, and medical–scientific instruments. Pushing into new markets will require promoting more flexible and advanced processing, encouraging the education and training system to develop advanced skills and new adaptability in the work force, harnessing new sources of capital, and creating a climate for entrepreneurship.

- *Expand Export-Oriented Services: Become New Regional Service Center*

  The growing traded-services sector is the best evidence that the state's economy is becoming more diversified. Areas of opportunity still to be exploited include experience-based tourism, especially in areas with rich history; new, specialized insurance products; specialized health care; and advanced computer-based and satellite-supported telecommunications services.

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The two main components of a strategy to upgrade the human resource base are as follows:

- *Enhance Work Force Skills and Adaptability: Prepare for the Next Economy*

  In the future, Nebraskans must continually acquire new skills. Otherwise, fast-changing technology and market shifts could force repeated displacement of nonadaptive, skill-bound workers. Specific needs include advanced agricultural education and retraining, especially in management skills, marketing, and finance; continuing education and training for manufacturing workers and managers (especially in food processing) in the use of advanced (often computer-assisted) manufacturing processes; and provision of new technical skills for workers in the traded-services sector, such as in computer operation, use of specialized equipment, and advanced telecommunications.

- *Target Innovation: Focus on Enhancing Entrepreneurship*

  Nebraska grew strong because entrepreneurial, hard-working people seized opportunities to raise cattle and grow corn and other crops for expanding markets. Today, increasingly noncompetititve industries need to be revitalized, and new businesses must be started in emerging and changing fields. New approaches are needed in agriculture, where a new entrepreneurial approach may be the only way to stimulate the sector; food processing, where innovative businesses can meet fast-changing consumer demands as food preferences change; manufacturing, where producing higher-value products and pursuing new markets require investment in more sophisticated equipment; and traded services, where businesses and consumers want more services, new services, and, in most cases, faster service.

Keep Nebraska's Places Competitive

Many residents of the Panhandle area feel increasingly closer to Denver, Cheyenne, and Casper than to Omaha and Lincoln. Southern Nebraska residents often feel drawn toward the urban areas of Kansas. It seems that Nebraska's urban areas are becoming uncoupled from its rural areas. Therefore, the third major strategy is to reconnect the state by building new regional capacity.

- *Rebuild Linkages: Improve Connections Between Urban and Rural Places*

  This strategy has three elements: improve statewide communications, transportation, and institutional infrastructure (e.g., education, government); promote specific economic (e.g., branch plant siting) and noneconomic (e.g., cultural) linkages between urban and regional centers; provide transition assistance—if necessary, through new state programs—for small rural places that are facing severe decline.

- *Strengthen Economic Capacity: Promote Regional Growth Centers*

  The intermediate-size communities have the potential for becoming regional growth areas—new economic wellsprings for the state. If Nebraska is to develop its regional centers, it must: Encourage a variety of university, state college, and technical school expansions in selected growth centers, both to train and educate area residents and to promote entrepreneurship; ensure the presence of both traditional and advanced physical infrastructure; encourage regional growth centers to support the employment needs of surrounding rural places; and ensure an adequate revenue base in intermediate-size areas by improving the organization and efficiency of public services (e.g., city and county governments, school districts) and methods of levying taxes.

With these economic infrastructure investments and institutional changes, Nebraska can position its largely rural economy for a prosperous future (see Exhibit 5). But regaining control over its own destiny will require an unprecedented degree of collaboration between the state's public and private sectors and a commitment to innovation at all levels. In sum, the future of rural Nebraska—and of rural America—will depend on how successfully the public sector (including federal, state, and local government) and the private sector can work together to build the new economic infrastructure that is necessary to be competitive in the evolving global economy.

Implications for Federal Policy

The federal government can play an important role in promoting the adaptation and development of rural America. ***Perpetuation of traditional ways of doing business and stopgap measures to ease distress do little to prepare rural people, places, and industries to prosper in today's and tomorrow's global economy.*** Some promising efforts to build and strengthen economic infrastructure have emerged at the state and local levels. ***The federal government could play a more central role in funding both evaluations of recent grass-roots experimentation and new demonstrations to test other innovative approaches.*** In some cases, the best role for the federal government is to help successful state and local programs expand to reach more rural people, places, or industries that are at risk.

The federal government can also play a useful role in promoting regional cooperation among states. In cases where economic regions overlap political boundaries, it could be wise to combine efforts to meet rural economic infrastructure needs.

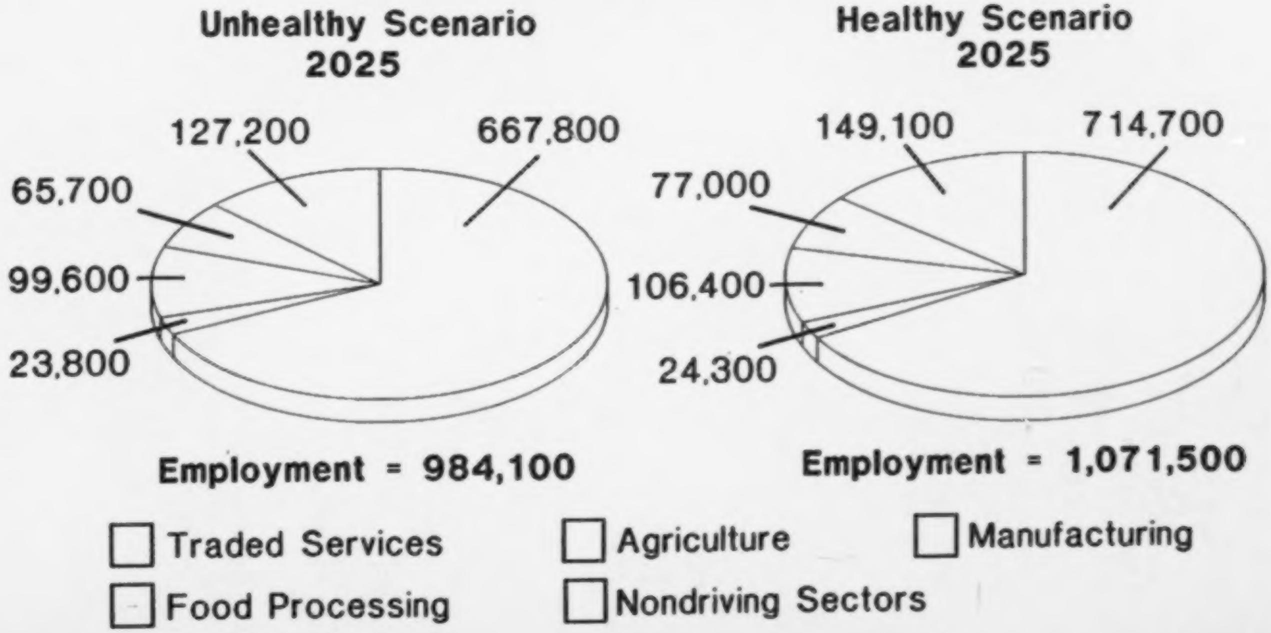
Finally, more federal–state government coordination to target resources more effectively and build critical masses of economic infrastructure would be helpful. This coordination should go beyond the respective departments of agriculture and encompass all state and federal agencies that have (or could have) an impact on economic infrastructure capacity in rural America.

Acknowledgments

This statement reflects the findings of research projects carried out in the Center for Economic Competitiveness (CEC) at SRI International, Menlo Park, California. CEC staff who made major contributions include James Gollub, Douglas Henton, Theodore Lyman, and John Melville.

Exhibit 5

Driving Sectors of Nebraska's Future Economy



Senator BAUCUS. Thank you very much. That was very interesting.

Dr. Gillis.

STATEMENT OF DR. WILLIAM R. GILLIS, DIRECTOR, CENTER FOR RURAL PENNSYLVANIA, HARRISBURG, PA

Dr. GILLIS. Thank you, Senator, and I appreciate the opportunity to participate in these important hearings.

There is one main point that I want to make to this Subcommittee. It is my opinion that there is no one national solution to rural economic problems in America. Every rural region is unique. Every region has a unique set of problems. Consequently, every region has a unique set of activities that are going to lead to solutions.

However, I think there is a very critical need for Federal leadership, coordination, and financing of a national initiative. In my formal testimony, I've outlined pieces of what that initiative would be in my opinion. Many of those have already been mentioned, so I'll just highlight them at this point.

The most important need in my view is human resource development, education and skill training in particular. There continues to be, particularly in the southern States and spread more sparsely in other States, a problem of much lower educational attainment levels in rural areas which has important implications for future economic competitiveness of rural regions. At the same time adult skill training is going to become more and more important. The vocational experts estimate that persons entering the labor force today will retrain for three separate careers in their lifetimes. Providing for that skill training is going to be important, and that training needs to be in the rural areas.

One piece of human resource that is probably more important for rural areas than urban areas is leadership, the ability to manage public affairs. Rural areas are unique from urban areas in that they rely very heavily on volunteers and part-time people to plan their economic development efforts. The boards and even the local officials often do their work after they close down the hardware store or after finishing milking their dairy cows. These people need some special technical assistance. They aren't full-time professionals that have been trained in this areas. They are experienced, dedicated citizens, and they need technical assistance.

The business infrastructure is something that Federal policy and State policy have spent a lot of time and effort on, and I agree that it is important. And I agree that rural areas are lacking in many infrastructure facilities. I am speaking of sewer and water, roads, highways. And we have heard a discussion of telecommunications today. There are many emerging new pieces of infrastructure. I would include things like day care, for example, and the type of support that is needed for businesses of the future.

The important point of infrastructure is that infrastructure by itself cannot cause economic development. Building a highway through an area isn't going to lead to economic development. It can merely open up the opportunities that are already there which means that my opinion is that we need broad-based strategies that will provide the other factors that are going to lead to development, not just simply putting highways out into rural areas.

Technology has been a very important part of economic competitiveness in both rural and urban areas. In Pennsylvania we found that one of the programs there, the Ben Franklin Partnership, has been very successful in helping to get technology out into rural areas. The key is that they need technical assistance and financial assistance to adopt some of the technologies that are important for their competiveness.

In your letter you asked for a thought about emerging growth industries, industries we might concentrate on for rural areas. And my first statement, I think, reflects my opinion on that. I think it would be a mistake to concentrate on any one industry or set of industries. Traditionally our rural economic development policies focused on agricultural development and manufacturing development. I think it would be a mistake to just reshift the narrow focus to high-tech and service development. The challenge of rural economic development policy is to design broad policies that are flexible enough to support a wide range of economic opportunities in rural areas so they can match their unique marketing resource base.

In my own State of Pennsylvania, for example, in one region in the northeast, the recreation and retirement industries offer the most potential. In the southeast, it is probably food processing. In the central region, it is probably powered metals and hardwoods. In the southeast, it probably is technology-based industries. You magnify that across the country and the diversity is even much more profound.

The primary role of the Federal government—the point I have tried to make is that I think any rural economic development initiative needs to be national in scope. It has specific roles for the State. It has specific roles for the local, and it has specific roles for the Federal.

I don't think a national initiative will be successful, through, without Federal participation. Particularly, that participation needs to include financial assistances. The States do not have the financial resources to carry out the programs like we have discussed. And for some programs they don't have the incentive.

Labor training is a good example. A person that is trained in a rural community or even an urban community often moves, and the benfits of that training are lost from certainly the local community and often from the State when the person moves. And so, there isn't a clear incentive for them to provide financing for that. In working with private companies I found the same thing, that they often don't provide training for their employees because they must put the training in and the employee goes down the road to another firm, and they lose it. The concept is the same. Since the benefits accrue across the Nation, it needs to have some Federal financing to it.

Probably one of the most important roles for the Federal Government in my view is coordination of national economic development efforts. I see a major problem of States competing with one another using the same tools, financial programs, so-called giveaway programs. In the end, the net effect is neutral on what actually is accomplished. They spend a lot of money by reducing their tax revenues, but the next neighboring States does the same thing. They need to do that to be in the game. The only way of reversing that wasteful competition of economic development incentives between States is to have some sort of national coordination of those activities.

And then finally in your letter you asked for some thought about should there be a lead agency, such as USDA. In my opinion there needs to be definitely a lead Federal agency. Some observers estimate there is more than 30 Federal agencies and organizations that maintain programs with rural emphases to them or at least a rural component to them. But these agencies and organizations do not coordinate their activities well, and consequently, you lose much of the benefits of those activities. Having a lead agency could play a very important role in coordinating and pushing those initiatives farther.

I am not sold on the idea of putting it in any of the existing agencies, whether it be USDA or whether it would be Commerce or HUD or any other organization, however, because my fear is that any rural initiative would get lost in the depth of those organizations.

An alternative that I might suggest would be to establish a special assistant to the President much like there is a trade assistant to the President's office with an office that would focus on rural issues. With the right President and appropriations supporting an office that would focus on rural issues, I think that that kind of an approach would have a better chance of being effective than to try to establish a division or a focus within an existing agency.

Those are my basic comments. I'd be happy to respond to questions at a later time.

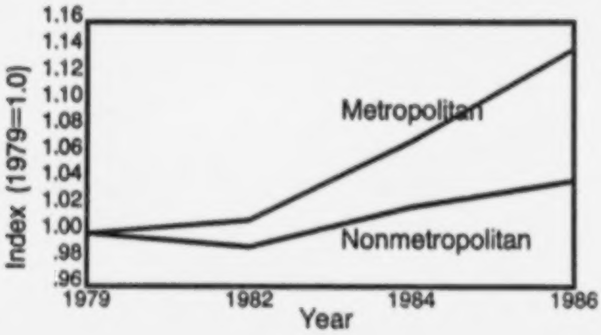
[The prepared statement of Dr. Gillis follows:]

ENCOURAGING ECONOMIC DEVELOPMENT IN RURAL AMERICA

Abridged Testimony of Dr. William R. Gillis to the
Subcommittee on Rural Economy and Family Farming
United States Senate
June 29, 1988

While economic recovery continues at a strong pace throughout the nation, the rate of recovery has been significantly slower in rural areas compared with metropolitan areas. A federal partnership with state and local governments is essential to enhance the competitiveness of existing businesses and establish new industries in rural communities

Widening Gap Between Metro and Nonmetro Employment



THE WIDENING GAP BETWEEN RURAL AND URBAN EMPLOYMENT GROWTH

The above graph illustrates that while the current national economic recovery has benefited both rural and urban communities, there is a widening gap between economic conditions in nonmetropolitan and metropolitan counties. Between 1979 and 1986, total metropolitan employment grew 14 percent compared to only 4 percent in nonmetropolitan America. Average unemployment rates have remained at least 1.5 percentage points higher in rural areas than in urban communities throughout this decade.

Rural communities with greatest economic problems are those which have historically relied on heavy manufacturing, agriculture, and mining as their principle economic base. These industries have suffered major job loss throughout the nation. Because urban economies tend to have a higher concentration of emerging growth industries in both manufacturing and the service sector, the overall impact of recent employment declines in heavy manufacturing, agriculture and mineral industries has been dampened.

ACTIONS TO ENCOURAGE RURAL ECONOMIC DEVELOPMENT

Education and skill training

Education experts estimate that half of the new jobs to be created over the next decade will require some education beyond high school. Youth entering the labor force today can expect to retrain for entirely different careers three times over their lifetime. Education and skill training are essential components of any successful program to enhance the competitiveness of rural business and industry.

Provide technical assistance to rural leaders

Rural communities rely heavily on volunteers and part-time professionals to plan and implement economic development strategies. Assistance in community economic development education, planning, and implementation is essential to help rural leaders make the wisest choices among economic development strategies.

Support business infrastructure improvements when appropriate

Investments in industrial sites, roads, bridges, sewer and water facilities or communications systems do not guarantee economic development will take place. Other essential ingredients such as availability of key labor skills, access to markets and key inputs must also be in place before development can take place. However, the lack of key infrastructure facilities can seriously hamper economic growth when other necessary ingredients are present.

Encourage rural enterprises to adopt new technologies

Technological innovations are critical to the future economic competitiveness of rural business and industry. Programs providing financial and technical assistance can speed up the rate of technological innovation among businesses in rural areas.

Support development of emerging new growth industries

Much of the current economic problems in rural communities are due to an over dependence on industries suffering from declining national and international market demand. Federal leadership is critical to the development of emerging rural growth industries. However, federal policies and programs targeting rural growth industries must be flexible allowing each region to focus on development opportunities most closely corresponding with there market and resource base.

Prudent use of business incentive programs

Credit subsidies and loan guarantees have been extensively used, and perhaps overused as the solution to all problems. Well conceived, potentially profitable ideas often attract venture and debt capital on their own. At times too much emphasis has been placed on government subsidies and loan guarantees without enough emphasis being given to the tools for business survival.

WHY FEDERAL POLICIES AND PROGRAMS ARE NEEDED

- State and local resources are generally inadequate to deal with the extensive problems facing rural America.
- The benefits of many rural economic development programs are widely dispersed across the nation.
- Coordination of rural economic development policy at the federal level can help reduce economic waste resulting from development competition between states.

PRIORITIES FOR FEDERAL RURAL ECONOMIC DEVELOPMENT POLICY

Provide financial support

Federal financial support for strengthening the capacity of rural human resources, developing key business infrastructure, and filling rural credit gaps is essential. State and local government typically lack the necessary resources and the incentive to finance critical rural programs.

Coordinate national development efforts

State and local government are better able than the federal government to identify the specific economic development needs and opportunities for their local rural regions. However, federal coordination of programs is needed to reduce economic waste resulting from development competition between states.

Establish lead federal agency

Observers estimate that as many as 30 separate federal agencies and organizations maintain programs with rural components. Currently there is little or no coordination among the programs. Effectiveness of existing rural programs could be improved in several ways including centralizing the activities under a current agency such as U.S.D.A., establishing a new rural agency, or authorizing a special assistant to the President acting much like a cabinet position.

Dr. Gillis is an associate professor of agricultural economics at the Pennsylvania State University. His experience includes extensive work with rural communities in planning local economic development strategies and the publication of numerous research reports on rural economic development issues. In March of 1988, Dr. Gillis was appointed as the first Director of The Center For Rural Pennsylvania, an agency of the Pennsylvania General Assembly. His role at the Rural Center includes facilitating the establishment of new policy initiatives supporting rural development.

ENCOURAGING ECONOMIC DEVELOPMENT IN RURAL AMERICA

Testimony of Dr. William R. Gillis to the
Subcommittee on Rural Economy and Family Farming
United States Senate
June 29, 1988

I am pleased to have an opportunity this morning to discuss rural economic development needs and policy opportunities.

The recent drought in the nation's farm belt states and the growing budget pressures to reduce farm income and price supports have combined once again to bring rural economic development to the forefront of federal policy concerns. Rural experts have noted a widening gap between economic conditions in rural and urban America. Between 1979 and 1986, total metropolitan employment grew 14 percent compared to only 4 percent in nonmetropolitan America. Average unemployment rates have remained at least 1.5 percentage points higher in rural areas than in urban communities throughout this decade.

Rural communities with greatest economic problems are those which have historically relied on heavy manufacturing, agriculture, and mining as their principle economic base. These industries have suffered major job loss throughout the nation. Because urban economies tend to have a higher concentration of emerging growth industries in both manufacturing and the service sector, the overall impact of recent employment declines in heavy manufacturing, agriculture, and mineral industries has been dampened.

The issue before us is not the economic problems facing rural areas, but rather what can be done to improve the well-being of rural America's more than 55 million rural people. My remarks will focus first on several of the key issues facing rural areas and then on specific roles for federal policy interventions to address those issues.

FEDERAL POLICY CHALLENGES

Strengthening the rural human resource base

Human resources are the key to a strong rural economy. Rural businesses require a productive labor force. Business management and entrepreneurship skills play an important role in supporting the start of new rural businesses as well as the retention and expansion of existing ones. Community leadership skills are necessary ingredients for effective local economic development planning and implementation.

The most recent evidence indicates that while there has been improvement in recent years educational attainment levels remain significantly lower in rural areas when compared to urban communities in the same region. Education experts estimate that half of the new jobs to be created over the next decade will require some education beyond high school. Youth entering the labor force today can expect to retrain for entirely different careers three times over their lifetime. Consequently, education and skill training are essential components of any successful program to enhance the competitiveness of rural business and industry. Increasingly, economic competitiveness in modern economy mandates that education and skill training programs include training in management and entrepreneurship skills.

Rural communities differ from urban communities in that they rely heavily on volunteer and part-time professionals to plan and implement economic development strategies. Assistance in community economic development education, planning, and implementation is essential to help rural leaders make the wisest choices among economic development strategies.

Unfortunately, rural communities and states often lack necessary financial resources to expand educational and technical assistance programs enhancing production and entrepreneurship skills, management capacity, and leadership abilities of rural residents. Furthermore, the incentive for localities and states to finance human resource development programs is limited by a recognition that the benefits of such programs are often lost from the locality or state as people move from the area. Consequently, significant inroads into solving the quality and availability of human resources in rural areas is unlikely without federal cost sharing for education and technical assistance programs.

Support business infrastructure improvements when appropriate

The federal government has traditionally played a major role in financing key infrastructure facilities and services in rural areas including highways, roads, bridges, sewer and water facilities, and industrial sites. Numerous observers have pointed out telecommunications as an emerging new rural infrastructure need. Telecommunication facilities are an increasingly important support facility for American enterprise. Private telecommunications firms often find it unprofitable to invest in rural areas due to the sparse population base. Rural communities lacking access to key telecommunications technologies will be at a competitive disadvantage in attracting and retaining businesses and industries. A program similar to the Rural Electrification Act may be necessary to support development of telecommunications facilities in sparsely populated rural areas.

Facilities and services such as these are necessary but are not sufficient by themselves to promote rural economic development. A wide variety of other factors including, access to markets and key inputs, availability of key inputs, availability of labor with needed skills, the availability of capital, and effective community leadership are equally important. If other key factors of production are not in place, construction of highways, sewer and water facilities, or industrial sites will do little good. On the other hand, when other factors necessary for economic success are present, an inadequate infrastructure base can seriously hamper economic development.

Sparsely populated rural communities are at a particular disadvantage in financing necessary public facilities and services due to their limited taxing capacity. In many cases, their local taxing capacity has been further eroded in recent years by declines in property values resulting from declines in agriculture, manufacturing and natural resource based industries. Of particular concern, is the potential that rural communities most in need of new investments in business support infrastructure to accommodate a restructuring of their local economy, may be least able to afford such investments. Due to the costly nature of infrastructure facilities and the fact that the benefits of such infrastructure extend over broad geographic regions, federal assistance is needed to help rural communities make the necessary infrastructure investments to support rural economic development.

Encourage rural enterprises to adopt new technologies

Technological innovations are critical to the future economic competitiveness of rural business and industry. The importance of public financial support of research and development efforts for the economic development of the nation is well documented. Because the benefits of major research and development breakthroughs often accrue to the entire nation, state governments and private companies do not have a clear incentive to invest in research and development without federal participation.

Once new technologies are developed, rapid adoption of those technologies by business and industry is essential to promote economic competitiveness. For a variety of reasons including geographic isolation, lack of experience, and absence of technical support, businesses in rural areas tend to be slower in adopting new technologies than their counterparts in urban places. Federal partnership with state governments and private industries in programs providing financial and technical assistance can speed up the rate of technological innovation among businesses in rural areas.

Support development of emerging new growth industries

Much of the current economic problems in rural communities are due to an over dependence on industries suffering from declining national and international demand. Federal leadership is critical to the development of emerging rural growth industries. However, it is important not to succumb to the temptation of focusing federal policies and programs targeting specific "rural growth industries".

Every rural region has a unique set of resources and market opportunities. In my own state of Pennsylvania for example, the sparsely populated north central region appears to have the greatest potential for development of hardwoods industries and powdered metals; the Pocono's northeast has the greatest potential for residential based industries and tourism; the rural southeast is a major food processing center; the future of the southwestern corner of the state is likely to be in specialized metals and technology based industries. The diversity of opportunities becomes even greater when the perspective becomes nationwide. The challenge for federal rural economic development policy is not to shift the current narrow focus on agriculture, manufacturing and resource based industries to a different narrow focus on high technology or service based industries. Rather the challenge is to design flexible federal policies broad based enough to support a wide range of opportunities most closely matching the market and resource base of each unique rural region.

Prudent use of business incentive programs

Financial assistance to rural enterprises through loans, direct grants, and tax subsidies have historically been an important part of federal policy to encourage development of business and industry in rural communities. Federal financial assistance programs administered by agencies such as the Economic Development Administration and the Small Business Administration are needed to support economically sound ideas of rural entrepreneurs unable to obtain business development capital from conventional sources. Current eligibility requirements for federal programs should be broadened to include business development opportunities in the rapidly growing service sector.

Many rural financial institutions, community development groups, and business people do not utilize available financial assistance programs simply because they are not aware of them or they find the rules and regulations too complicated. Technical assistance to both rural communities and businesses are necessary to ensure effective implementation of federal financial assistance programs.

Financial assistance programs are needed to fill credit gaps left unfilled by private financial institutions. However, caution is required in utilizing financial assistance programs as development incentives. Credit subsidies and loan guarantees have been extensively used, and perhaps overused as the solution to all problems. Well conceived, potentially profitable ideas often attract venture and debt capital on their own. At times too much emphasis has been placed on government subsidies and loan guarantees without enough emphasis being given to the tools for business survival.

PRIORITIES FOR FEDERAL RURAL ECONOMIC DEVELOPMENT POLICY

Providing financial support for strengthening the capacity of rural human resources, developing key business infrastructure, and filling rural credit gaps

Clearly , successful programs addressing the critical rural economic development problems require active involvement of state and local governments. However, state and local resources are generally inadequate to deal with the extensive problems facing rural America. Furthermore, the benefits of many rural economic development programs are dispersed widely across the nation. For example, benefits from a program to improve management skills of rural business people are lost from the rural community or state as business people trained under the program move to another location. Without a federal partnership, programs such as these are likely to go unfunded as state and local governments do not have a clear incentive to fund programs for which their constituency are unable to capture the full benefits.

Coordination and leadership of national rural economic development efforts

Coordination of rural economic development policy at the federal level can also help reduce economic waste resulting from development competition between states. Public tax receipts are diminished in all states as states provide tax incentives and "give away" programs to attract business and industry. The net impact on business location decisions is minimal as competing states offer about the same incentive packages. Only strong coordination at the federal level can overcome the problem of wasteful competition between states.

Establishment of a lead federal agency or authority for rural development

Observers estimate that as many as 30 separate federal agencies and organizations maintain programs with rural components. Currently there is little or no coordination among the programs. Effectiveness of existing rural programs could be improved in several ways including centralizing the activities under a current agency such as U.S.D.A., establishing a new rural agency, or authorizing a special assistant to the President acting much like a cabinet position.

Dr. Gillis is an associate professor of agricultural economics at the Pennsylvania State University. His experience includes extensive work with rural communities in planning local economic development strategies and the publication of numerous research reports on rural economic development issues. In March of 1988, Dr. Gillis was appointed as the first Director of The Center for Rural Pennsylvania, an agency of the Pennsylvania General Assembly. His role at the Rural Center includes facilitating the establishment of new policy initiatives supporting rural development.

The following individuals have contributed significantly to ideas outlined in this testimony: Dr. Ron Knutson and Dr. Dennis Fisher, both of Texas A & M University, Dr. David Chicoine, University of Illinois, and Dr. Steven Smith of Penn State University.

Senator BAUCUS. Thank you, Dr. Gillis.
Dr. Smith.

STATEMENT OF DR. STEPHEN M. SMITH, ASSOCIATE PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY, THE PENNSYLVANIA STATE UNIVERSITY, UNIVERSITY PARK, PA

Dr. SMITH. Judging from what I heard this morning and the letter of invitation I received, the issues are pretty well covered, and I believe your subcommittee has a very perceptive view of the problems, and questions that are equally perceptive, I hope we see progress in the directions that the questions have posed.

I was asked to testify mainly because of research that I and Professor David Barkley at the University of Arizona have done on the role of high-tech industries in rural areas of the West. My written testimony summarizes this and provides further reference to the research. What I would like to do now is briefly summarize our conclusions from the research and also attempt to address certain of the question that you have posed.

Our research shows that the implications of the potential for high-tech industries as a source of nonmetropolitan employment are generally positive, that many high-tech manufacturers have decentralized their production activities and nonmetropolitan employment in this sector is growing rapidly. Small towns and counties not adjacent to metropolitan areas have been beneficiaries, although the large towns and the counties close to metropolitan areas certainly have been favored more.

Moreover, we feel that, in the future, the attractiveness of rural locations to high-tech manufacturers should increase as these industries evolve through their product life cycles and production processes become labor intensive. They can more effectively operate in rural areas. Thus, we believe that the goal of attracting high-tech industry to rural areas is realistic.

However, despite these indications, we also believe that most nonmetropolitan communities should not concentrate their industrial inducement efforts totally in that area, as Dr. Gillis has said. One reason is that high-tech industries constituted less than 25 percent of the Nation's employment in manufacturing and business services. And the competition for new plants and relocations is likely to be as intense as for any industry.

And second, the high-tech manufacturers in the innovative stage of the product life cycle, which generally confuses the more glamorous, electronic types of industries, have demonstrated a reluctance to shift their production activities from the metropolitan areas to the more nonmetropolitan communities.

The second question is will high-tech industries create as much employment as traditional manufacturing has in rural areas? We think the answer is yes on two counts. One is that the growth of manufacturing jobs over the last 15 years has been primarily in the high-tech industries. And second, on a per plant basis, the high-tech industries that we have studied in the West create more total employment per plant than the traditional manufacturing industries.

The third conclusion we have drawn concerns branch plants. Those are the type that are usually the focus of external recruitment efforts. While the other types of plants—single unit, headquarters—are generally of more local origin, it is very difficult to say why they originate where they do. If a branch plant of a high-tech firm is the target of more likely opportunity, the resulting employment impacts are likely to be the same as a branch plant for any industry. Different jobs, generally will not be provided.

Now, this may not meet goals of upgrading the local workforce, which seem to be reasons for bringing in high-tech, but the match with local labor skills may be better. The jobs being lost and thus needed in most nonmetropolitan communities are not the highly skilled and the highly technical.

Another advantage is that high-tech seems to employ more women than the low-tech, traditional manufacturing industries, although generally not in the professional job categories.

A fourth conclusion we have drawn from our research is the strong tendency for high-tech manufacturers to purchase more lower levels of their nonlabor inputs locally than the low-tech. This conclusion is particularly applicable to the branch plants. Communities that are recipients of high-tech manufacturing will benefit from the direct employment, but much less so from backward linkages than the low-tech industries. Thus attracting a high-tech plant may be easier than attracting its business, and communities will have to put forth a special effort to take advantage of these linkage effects.

The foregoing only shows the existing situation, without saying much about policy. I would like to address more general issues of policy that perhaps may make it more propitious or easier to bring in high-tech industries.

I think, in a general policy context, we must realize, as one speaker I think already has said, that agricultural policy is not rural policy. One may not help the other.

Another issue is that whatever policy is developed must be flexible itself, and it must be one to enable rural people and communities to be flexible themselves. Why do I characterize it as flexible? The reason is that the only thing we can really be sure about for the future rural America is it will change. The people in communities can no longer look at themselves and say we have these jobs; we have this industry and the business community looks solid, so we're set. They must be able to respond to opportunities and be ready to adopt to changing circumstances.

Given that, on what should such a policy be based? First we know we are not a society that has the philosophy of saying to business, "you locate here;" or "you locate there," or providing specific payments and advantages and saying; "you will go here." Federal policy, Federal action, Federal money; however, can create an environment to make rural areas more attractive.

Areas where I think we need real attention are specifically ones that Dr. Gillis also mentioned. One is what economists call human capital—education, human resources. This is an investment in the education and training not only of our youth, but also of the tens of thousands of adults whose current employment opportunities already have or will become absolete. This is not a short-term program. It's not a quick fix. It is a long-term, continual efforts, and probably an expensive one.

The second issue I would like to touch on is the issue of infrastructure, which has been mentioned several times. We know that the areas most well-endowed with infrastructure also are the ones that are best off economically. Certainly, we need to pay attention to the traditional basic kind of infrastructure in rural areas—roads, water and sewer—much of which is now out of date and often serves as a barrier to further economic development.

Modern telecommunications infrastructure is an area to which attention must be paid. I agree with you that deregulation has put rural areas at a severe disadvantage with much economic infrastructure. And I think we maybe seeing that particularly with modern telecommunications. Without rural areas having access to modern telecommunications, being competitive in the rest of the 20th century, and early in the 21st, is likely to be impossible. In looking at this issue, I wonder if it is time for a modern version of the Rural Electrification Administration that so effectively served rural areas a few decades ago.

Perhaps we need a much more active rural policy. For example, if we really want to encourage rural high-tech industry, why not take a very active approach such as requiring the Defense Department, which purchases a vast majority of the high-tech imputs, to make a certain percentage of their manlabor purchases in rural counties?

That would certainly bring large amounts of business to rural areas.

I will stop my comments there and respond to any questions.

[The prepared statement of Dr. Smith follows:]

THE ROLE OF HIGH TECHNOLOGY MANUFACTURING IN RURAL ECONOMIC REVITALIZATION

Testimony Presented To The

Senate Small Business Committee's Subcommittee
on the Rural Economy and Family Farming

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The recessionary impacts of the early 1980s fell severely on the major rural employment sources of agriculture, forestry, mining and related processing. As the economy recovered, these industries became less labor intensive, with dim prospects for future employment growth. These events exacerbated the long term employment decline in the resource extraction and processing industries. Compounding the problem is the decline in rural low skilled manufacturing jobs, which had formed the core of many rural communities' economic diversification efforts.

As a response, "high technology" manufacturing industries have captured the attention of economic development policymakers. Evidence shows that states and communities are justified in thinking that high tech industries have the potential to provide new employment opportunities. High tech manufacturing industries have been the main bright spot in manufacturing since the mid-1970s. From 1972 to 1981, 87 percent of U.S. manufacturing employment growth occurred in the high technology industries. Projections through the mid-1990s, using moderate assumptions, show employment in high tech industries growing by more than twice the rate for all manufacturing.

Can rural communities, however, realistically expect to be the location for high tech manufacturing? In addition, besides generating more jobs, what types of jobs are created and how do they meet the needs and desires of a community? Also, what is the extent to which high tech manufacturing generates further local economic activity through nonlabor input purchases? Finally, is high tech manufacturing any different, or better, in these respects than other manufacturing industries? The purpose of this paper is to summarize information on these issues, based on the authors' recent research in nonmetropolitan counties in the Western United States. Detail on the research and results is available from the publications in the appended list.

LOCATION POTENTIAL OF HIGH TECH MANUFACTURING

The types of places where high tech manufacturers locate is crucial to rural communities' efforts to include these industries in economic development efforts. Do high tech establishments tend to locate in certain size communities, and do they locate in counties adjacent or not adjacent to metropolitan counties? Traditionally, nonmetropolitan areas have had relatively little success in attracting or generating employment in high-technology manufacturing. For example, in 1982, 88.6 percent of U.S. high technology employment was located in metropolitan areas, and 55.9 percent of this sector's employment was located in urban centers with populations exceeding one million. Recent research suggests, however, that the attractiveness of rural locations for high technology firms may be increasing.

An analysis of employment trends for manufacturing industries indicated that high technology manufacturing had decentralized employment from 1975 to 1982. Nonmetropolitan employment in the high tech sector increased from more than 450,000 to almost 520,000 from 1975 to 1982. Moreover, 13,000 of the new rural high tech jobs resulted from a specific urban-to-rural shift in the sector's manufacturing activity. The 1975 and 1982 total manufacturing and high technology manufacturing employment change for four metropolitan counties classifications (large-central, large-fringe, medium, small) and four nonmetropolitan county categories (large-adjacent, large-not adjacent, small-adjacent, small-not adjacent) are provided in Table 1. The employment data indicate that (1) all size and adjacency groupings experienced employment growth in manufacturing as a whole and in the high technology sector; (2) high technology employment growth rates exceeded the growth rates of manufacturing in general for each county classification; and (3) nonmetropolitan employment in high technology industries increased rapidly (14.8 percent) from 1975 to 1982, though not as rapidly (22.6 percent) as this sector's employment growth in metropolitan areas.

Employment growth rates of high technology manufacturers were not uniform across county size and adjacency categories. The growth rate in the small nonmetropolitan counties (urban population < 20,000) was approximately twice that estimated for the large nonmetropolitan counties (urban population> 20,000). Also, small (population < 250,000) and medium (population 250,000 - 1,000,000) sized metropolitan areas and the fringe counties of the largest SMSAs all had high technology growth rates greater than the rate estimated for the central counties of the largest SMSAs (population > 1,000,000). Interestingly enough, high tech employment growth in nonmetro counties was not consistently related to county adjacency status. Large counties adjacent to metro areas had relatively slow high tech employment growth (8.9 percent) while the growth rate for small-adjacent counties (25.7 percent) was very high.

The type of high tech industries locating in nonmetro areas also varied by region and county characteristics. Nonmetropolitan counties adjacent to SMSAs, and rural areas in the New England and Pacific states were successful in attracting high technology manufacturers in the innovative stage of their product life cycle. The slowly growing, lower labor-skilled, mature high technology industries shifted employment to primarily the non-adjacent counties and rural areas in the Southern and Plains states. These findings are consistent with the product life cycle theory of spatial decentralization. Employment in mature high technology industries is shifting to areas with relatively low land and labor costs, while industries in their growth and innovative stages are remaining close to the sources of skilled labor and specialized inputs.

Employment in high technology manufacturing also was not distributed uniformly among the 345 Western nonmetropolitan counties. One hundred nineteen of these counties (34.4 percent) had no employment in high tech industries in 1982, and only 110 of the rural counties (31.8 percent) had more than 50 employed in high tech manufacturing. Moreover, nonmetro high tech employment agglomerated primarily in the most populous nonmetro counties. Almost 80 percent of the Western rural high tech employment was located in counties with populations greater than 25,000. At the other end of the spectrum, the 140 nonmetro counties with populations less than 10,000 had only 5.1 percent of this sector's nonmetro employment. The high tech employment also was more heavily concentrated in nonmetro counties adjacent to metro counties than in counties more remotely located from urban areas. The 82 adjacent nonmetro counties had 49.7 percent of the high tech employment, while the remaining 50.3 percent was distributed among the 258 nonadjacent nonmetro counties. This preference of high tech manufacturers for large-adjacent nonmetro areas held for both locally owned unit plants and branches of multiplant operations. Almost 50 percent of the unit and branch plant employment was located in the 45 nonmetro counties (1) with populations greater than 25,000 and (2) close to metropolitan areas.

A survey by the authors of 280 high tech plants already located in nonmetropolitan counties in the West provides further information. Once a county is chosen, smaller towns do not appear to be at a major disadvantage as locations for high tech manufacturing. Over a fifth of the high tech establishments in the sample was in towns with populations less than 2500. This is the same percentage for towns of 2500-10,000, and 10,000-25,000. Towns of 25,000 or more were slightly more favored, with 35 percent of the high tech plants. At the same time, there is only a slight, and not consistent, pattern of larger plants preferring larger towns. The smallest towns (less than 2500) have a much lower percentage of the largest plants, but for other plant sizes the differences are small when they exist.

Overall, considering all plant sizes, counties adjacent to metropolitan counties had a higher percentage of the high tech plants, 57 percent vs. 43 percent. This corroborates the aggregate data. There are important differences, however, when the size of plants is considered (Figure 1). Larger high tech plants were more likely to be located in counties adjacent to a metropolitan county, and high tech plants in nonadjacent counties were usually smaller. While over half the plants with 25 or fewer employees were located in nonadjacent counties, only 27 percent with 50 to 100 employees and 14 percent with more than 100 employees were located in these counties. Of the high tech plants located in nonadjacent counties, over 42 percent had less than 10 employees, and three-fourths had 25 or fewer employees. In the adjacent counties, almost half the plants had more than 25 employees.

COMMUNITY IMPACTS

A question of constant interest is how many jobs will a plant provide, or what are the sizes of high tech plants in rural areas? Also, beyond the simple presence of a plant in a community and numbers of direct jobs generated, there are other factors that determine a plant's contribution to the local economy. One is the kinds of jobs generated. Another is the linkages with other local business and industry -- the amount of nonlabor inputs the plant purchases locally. This section will compare these impacts for the high and low tech manufacturers. The data are based on a 1986 survey of 280 high tech and 381 low tech plants in Western nonmetropolitan counties.

Size of the Establishments. The average size for all high tech establishments was 52 employees, vs. 31.6 employees for all low tech establishments. For size categories of less than 10 and 10 or more employees, the average size was 4.8 and 68.7 employees, respectively. Within the category of 10 or more employees, the high tech establishments averaged 78.3 vs. 57.1 employees for low tech. In the smaller category, the high and low tech establishments were virtually the same size, at 4.9 and 4.7 employees.

Branch plants were larger than both headquarters and single unit establishments. These differences were slight for establishments with less than 10 employees, but considerable for the larger size category. For establishments in the 10 or more category, branch plants averaged 143 employees vs. 89 for headquarters and 32 for single unit plants. A similar distribution existed for low tech establishments. For the high tech, larger size establishments, single unit plants were still the smallest size, but headquarters approached the size of branches.

Occupational Characteristics of the Workforce. Table 2 shows the average percentage of employees in each occupational category, by high and low tech establishments, and for the entire sample and two size groups. Key differences in the proportions of employees in different occupations are in the highest and lowest skilled occupations -- professionals and laborers.

For the sample as a whole, the high tech establishments averaged 14.5 percent of their employees in the professional category vs. 5 percent for low tech establishments. In the laborer category, the average was 7 percent for high tech and 14 percent for low tech establishments. Thus, relative to low tech, high tech manufacturers had approximately three times the percentage of employees in the most highly skilled category, and one-half the percentage in the lowest skilled category.

These differences hold for both small and large size establishments. In both size categories, the high tech establishments had much higher percentages of professional employees than the low tech establishments, and much lower percentages of laborers. In addition, the small high tech establishments had a significantly lower percentage of employees in the lower skilled operator/fabricator category (12 vs. 20.5 percent) than the large plants. This last result is not surprising. The smaller plants are younger, and thus likely in the development stages of their product. Such work requires higher, rather than lower skilled labor.

A comparison of branch and single unit plants shows important differences between the types of establishments. The high tech unit plants had significantly higher percentages of professional employees than low tech unit plants, and significantly lower percentages of laborers. The larger high tech unit plants also had higher percentages of executives and precision production workers.

Among branch plants, however, the picture is much different. There were no statistically significant differences between the high and low tech branch plants. Thus, branch plants, whether or not they are high or low tech manufacturing, can be expected to have similar labor force compositions. The percentages of professional or skilled workers employed by high and low tech branch plants is not likely to be different.

Another important aspect of the kinds of jobs generated by high tech manufacturing is the distribution between men and women. As job opportunities continue to decline in the male-oriented industries of farming, mining, forestry and related processing, rural families increasingly rely on the earnings of women. The existence of employment opportunities for women in growing industries will contribute significantly to alleviating economic stress on rural families and communities.

The survey showed that differences also existed between high and low tech plants when employment was examined by sex. High tech plants employed higher percentages of women than low tech plants. This was particularly true for branch plants. These higher proportions of women, however, were concentrated in the lower skilled production occupations. Low tech industries, on the other hand, provided considerably higher percentages of jobs for women in the professional and technical occupations, and also in the more skilled production occupations. Thus, if employment opportunities for women are a local development goal, high tech industries may provide them, but will tend to do so primarily in lower skilled occupations.

Local Input Purchases. The nonmetropolitan economic development potential of high tech manufacturing cannot be estimated solely on the basis of direct employment generated. New industries create markets and stimulate demand for inputs (backward linkages), and thus can broaden and deepen the local economy. Industries with strong backward linkages provide the impetus for a more dynamic economy and long term economic growth. Where local input linkages are absent, local income and employment multipliers will be low, and local income and employment expansion will be limited to increases in those activities that serve the additional workers and families employed in the new industry. Thus, if high and low tech manufacturers maintain different market linkages, the aggregate local employment and income generated by manufacturers in these sectors may differ greatly.

Overall, the high tech establishments purchased a statistically significant lower percentage of nonlabor inputs in the county than low tech establishments (34.4 vs. 41.8 percent). This difference was most pronounced among branch plants, with low tech branches purchasing almost half of their nonlabor inputs locally, versus less than 28 percent for high tech branches. Among single unit plants, low tech local purchases also were greater than high tech (41.3 vs. 36.4 percent), but there was no difference among headquarters establishments. Also, 35 percent of the low tech plants purchased over half their inputs locally, vs. 28 percent for high tech.

CONCLUSIONS AND IMPLICATIONS

The summary of research presented here provides at least partial answers to several questions about the role of high tech manufacturing in rural economic development. The first question that must be answered is, will such establishments locate in rural communities? The implications for the potential of high technology industries as a source of nonmetropolitan employment are generally positive. Many high technology manufacturers have decentralized production activities, and nonmetropolitan employment in this sector has increased rapidly. Aggregate and plant level data both show that small towns and counties not adjacent to metropolitan areas were locations for high tech plants. Larger towns and counties adjacent to metropolitan areas were locations for higher percentages of the high tech plants, especially the larger ones. Moreover, the attractiveness of rural locations to high tech manufacturers should increase as these industries evolve through their product life cycles and production processes and become less skilled-labor intensive. Thus, the goal of attracting high tech industry is realistic. However, despite the indications that high tech industries are a viable source of employment for rural areas, most nonmetropolitan communities should not concentrate their industrial inducement efforts totally on this sector. First, high technology industries constituted less than 25 percent of the nation's employment in manufacturing and business services, and the competition for new plants or relocations will be intense. Second, high technology manufacturers in the innovative stage of their product life cycle (generally the more "glamorous" industries) have demonstrated a reluctance to shift production activities to nonmetropolitan locations distant from urban centers.

A second question is will high tech industries create as much employment as traditional manufacturing? The answer appears to be "yes" on two counts. One is that growth in manufacturing jobs over the past 15 years, and projected future growth, has been primarily in the high tech sectors. The second is that the high tech industries studied in the West generated more total employment per plant.

A third issue concerns the differences in impacts between types of plants -- branch vs. single unit and headquarters plants. Knowledge of these differences is important because local development policies focused on one type may not fit the other. Branch plants are the focus of external recruitment efforts, while the other types usually are of local origin. If a branch plant of a high tech firm is the target or most likely opportunity, the resulting employment impacts will be similar to those of branch plants in any industry. Different jobs, particularly professional and skilled production jobs, generally will not be provided. While this may not meet goals of upgrading the local workforce, the match with local labor skills may be better. The jobs being lost, and thus needed, in most nonmetropolitan communities are not highly skilled or technical. Also, job opportunities for women are relatively good for low skilled production occupations in the high tech industries, but not in the professional job categories.

Three-fourths of the high tech establishments are not branch plants. The single unit and headquarters establishments provided significantly higher percentages of research and development, and professional, technical and skilled production jobs. Thus, these firms were more than just routine assembly operations. And although they provided fewer total jobs per plant than branches, smaller communities can more easily absorb smaller businesses. As these businesses grow, the community can more easily match their incremental service, labor and infrastructure needs. Furthermore, these businesses tend to be "home grown," and are thus good candidates for retention and expansion or entrepreneurial assistance programs. In many cases such efforts are more efficient uses of a community's or state's scarce development resources than recruitment.

A fourth issue is the strong tendency for high tech manufacturers to purchase much lower levels of nonlabor inputs locally than low tech establishments. This conclusion is especially applicable to high tech branch plants -- the likely focus of recruitment efforts or results of expansion/decentralization plans of metropolitan-based firms. Communities that are recipients of high tech manufacturing will benefit from the direct employment, but much less so from backward linkages, relative to low tech industries. Thus, attracting the high tech plant may be easier than attracting its business, and communities will have to put special effort into taking advantage of linkage effects.

Supporting Publications

Barkley, David L. "The Decentralization of High-Technology Manufacturing to Non-Metropolitan Areas." Growth and Change, Vol. 19, No. 1, Winter 1988, pp. 13-30.

Barkley, David L., Roger A. Dahlgran and Stephen M. Smith. "High-Technology Manufacturing in the Nonmetropolitan West: Gold or Just Glitter." American Journal of Agricultural Economics, forthcoming, 1988.

Barkley, David L., John Keith and Stephen M. Smith. "The Potential For High-Technology Manufacturing in Nonmetropolitan Areas." Western Rural Development Center, Oregon State University, Corvallis, Oregon.

Smith, Stephen M., and David L. Barkley. "Labor Force Characteristics of 'High Tech' vs. 'Low Tech' Manufacturing in Nonmetropolitan Counties in the West." Journal of the Community Development Society, Volume 19, Number 1, 1988, pp. 21-36.

Smith, Stephen M., and David L. Barkley. "Local Economic Impacts of High Technology Manufacturing in Nonmetropolitan Counties of the West." Western Rural Development Center, Oregon State University, Corvallis, Oregon.

Table 1. High Technology Manufacturing Employment in Metropolitan and Nonmetropolitan Counties, 1975 to 1982.

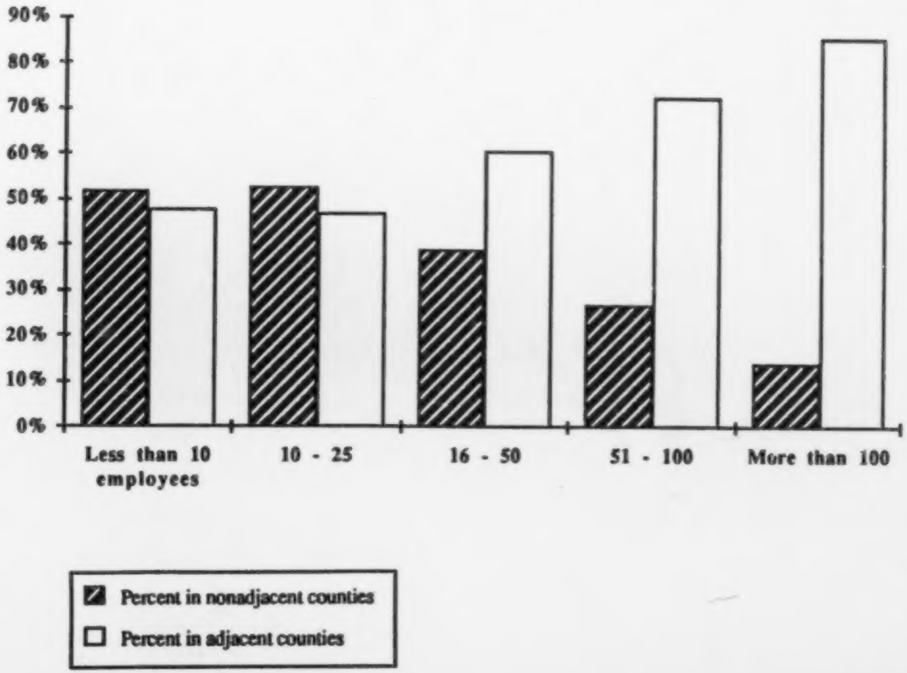
County Classification	Employment Totals		Percentage Change in Employment	
	1975	1982	High Tech	All Mfg.
Metropolitan				
Large				
Central Counties	1,391,777	1,631,523	17.2%	3.7%
Fringe Counties	660,439	876,648	32.7	15.8
Medium	888,941	1,102,654	24.0	7.0
Small	299,834	362,064	20.8	5.9
Total	3,240,991	3,972,889	22.6	7.4
Nonmetropolitan				
Large				
Adjacent	176,603	192,313	8.9	2.3
Not Adjacent	67,667	75,700	11.9	9.8
Small				
Adjacent	103,688	130,353	25.7	19.2
Not Adjacent	102,637	119,050	16.0	14.1
Total	450,595	517,416	14.8	11.0

Table 2. Average Percentage of Employees in Each Occupation by Technology and Establishment Size.

Occupational Category	Entire Sample		≥10 Employees		<10 Employees	
	High Tech	Low Tech	High Tech	Low Tech	High Tech	Low Tech
Executives	18.4%	18.0%	13.2%	11.9%.	28.1%	24.7%
Professional	14.5	5.2***	12.1	5.6***	18.1	4.6***
Sales	5.5	6.5	5.2	6.6	6.0	6.4
Clerical	9.2	9.3	8.4	8.2	10.4	10.6
Precision Production	20.3	20.6	20.2	17.7	20.8	23.8
Operators; Fabricators	25.1	26.4	32.5	31.7	12.1	20.5***
Laborers	7.0	14.0***	8.4	18.3***	4.4	9.4**

**Means significantly different at the .05 level.
***Means significantly different at the .01 level.

Figure 1. Percentage of High Tech Manufacturers in Counties Adjacent and Nonadjacent to Metropolitan Counties, by Establishment Size.



LOCAL ECONOMIC IMPACTS OF HIGH TECHNOLOGY MANUFACTURING IN NONMETROPOLITAN COUNTIES OF THE WEST

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INTRODUCTION

Can rural communities in the West expect to be the location for high technology manufacturing, and if so, what types of local economic impacts can they anticipate? These two questions have arisen in the 1980s as rural communities lost jobs in their traditional resource based industries, leading them to search for new employment opportunities. High tech manufacturing has been the focus of considerable attention because these industries have grown rapidly, and are expected to continue doing so.

There is evidence that high tech industries have the potential to provide new employment opportunities. From 1972 to 1981, 87 percent of U.S. manufacturing employment growth occurred in the high technology industries. Projections through the mid-1990s, using moderate assumptions, show employment in high tech industries growing by 14.1 percent vs. 6.6 percent for all manufacturing (Clair; U.S. Department of Labor). Moreover, recent research also shows that many high tech industries are dispersing geographically to small urban areas and nonmetropolitan counties (Markusen et al.; Barkley). Thus, the growth, employment and decentralization characteristics of high tech manufacturing industries indicate that they have the potential to generate employment opportunities in nonmetropolitan economies.

There are other issues besides simply generating more jobs, however. One is the types of jobs created and how they meet the needs and desires of a community. A second is the extent to which high tech manufacturing generates further local economic activity through nonlabor input purchases. A third issue is whether or not high tech manufacturing is any different, or better, in these respects than other manufacturing industries. The purpose of this publication is to provide information on these issues. The goal is to help communities assess the potential high tech manufacturing may have for meeting economic development and job creation goals.

The publication will address the following topics. The next section defines high tech industries and discusses the data collection. This is followed by a section briefly summarizing several characteristics of the manufacturing establishments sampled, and their locations. The fourth section examines the community impacts of the high tech and non-high tech (low tech) manufacturing plants. The types of impacts examined include size, occupational characteristics and local input purchases. The final section summarizes the study and draws policy implications.

DATA DEFINITIONS AND SOURCES

Definitions of high technology industries vary. The definition used in this study was developed in 1983 by Armington, Harris and Odle of The Brookings Institute. This definition classified an industry as high technology if (1) more than 8 percent of its employees were in scientific, engineering or technical occupations and at least 5 percent of industry employment was in the more narrow class of scientific and engineering occupations, or (2) the proportion of expenditures for research and development relative to product sales exceeded the national average. Eighty manufacturing industries (4-digit Standard Industrial Classification - S.I.C.) were identified under this criteria (See Appendix A for a list).

The study is based on data from a mail survey (following Dillman's method) of 927 high technology and low technology manufacturing firms located in nonmetropolitan counties in eleven Western states -- Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. The sample frame was the manufacturing directory for each state for 1985 or 1985/85, except for Washington, for which only the 1984-85 directory was available. All nonmetropolitan counties in each state were identified, and all high tech establishments listed in the directories for those counties were selected for the survey. The low tech establishments were selected from the same counties as the high tech establishments. A 10 percent sample with a random start was drawn from each state, except for a 5 percent sample from Oregon. This was done because Oregon had a much larger directory than any other state, and a 10 percent sample would have over-represented the state, and particularly small wood processing firms. The total number of responses was 638, for an overall response rate of 68.8 percent. The usable response rate was 62.7 percent, including 280 high tech and 301 low tech establishments.

GENERAL CHARACTERISTICS OF THE ESTABLISHMENTS

Ownership type. The establishments in the sample were divided into three ownership types -- headquarters with branch plants, branch plants, and single unit plants. Over 70 percent of the sample was single unit plants, 19 percent was branches and less than 10 percent was headquarters. These percentages are about the same for both high and low technology categories. Establishments with less than 10 employees were primarily single unit plants (87 percent), and less than 8 percent were branch plants. Among plants with 10 or more employees, single unit plants made up 60 percent of the establishments, while branch plants were almost 27 percent of the total. The percentage of branch plants was higher and single unit plants lower for high tech establishments.

Age. There were statistically significant age differences between large and small establishments, between high and low tech establishments overall and within ownership types, and between ownership types within size groupings. (Age equals and difference between the year 1985 and the year operations started at the plant.) The high tech establishments were on average 10 years younger than low tech plants (14.7 vs. 25.2). Establishments with less than 10 employees averaged 16.5 years vs. 22.5 years for the larger category. Within size groups, the high tech establishments were younger for both groups -- an average of 8.5 years younger (11.4 vs. 19.9 years) for the small establishments, and 14 years younger (16.1 vs. 30.3 years) for the large establishments. For the separate ownership types, the high tech establishments were considerably younger for all types.

Location. The types of places where high tech manufacturers locate is crucial to rural communities' efforts to include these industries in economic development efforts. Do high tech establishments tend to locate in certain size communities, and do they locate in counties adjacent or not adjacent to metropolitan counties?

Smaller towns do not appear to be at a major disadvantage as locations for high tech manufacturing (Table 1). Over a fifth of the high tech establishments in the sample was in towns with populations less than 2500. This is the same percentage for towns of 2500-10,000, and 10,000-25,000. Towns of 25,000 or more were slightly more favored, with 35 percent of the high tech plants. At the same time, there is only a slight, and not consistent, pattern of larger plants preferring larger towns. The smallest towns (less than 2500) have a much lower percentage of the largest plants, but for other plant sizes the differences are small when they exist.

Overall, considering all plant sizes, counties adjacent to metropolitan counties had a higher percentage of the high tech plants, 57 percent vs. 43 percent. There are important differences, however, when the size of plants is considered (See Figure 1). Larger high tech plants were more likely to be located in counties adjacent to a metropolitan county, and high tech plants in nonadjacent counties were usually smaller. While over half the plants with 25 or fewer employees were located in nonadjacent counties, only 27 percent with 50 to 100 employees and 14 percent with more than 100 employees were located in these counties. Of the high tech plants located in nonadjacent counties, over 41 percent had less than 10 employees, and three-fourths had 25 or fewer employees. In the adjacent counties, almost half the plants had more than 25 employees.

COMMUNITY IMPACTS

A question of constant interest is how many jobs will a plant provide, or what are the sizes of high tech plants in rural areas? Also, beyond the simple presence of a plant in a community and numbers of direct jobs generated, there are other factors that determine a plant's contribution to the local economy. One is the kinds of jobs generated. Another is the linkages with other local business and industry; the amount of nonlabor inputs the plant purchases locally. This section will compare these impacts for the high and low tech manufacturers.[1]

Size of the Establishments. The average size for all high tech establishments was 52 employees, and 31.6 employees for all low tech establishments. For size categories of less than 10 and 10 or more employees, the average size was 4.8 and 68.7 employees, respectively.

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[1] See Smith and Barkley, and Barkley, Dahlgran and Smith for further detail.

Within the category of 10 or more employees, the high tech establishments averaged 78.3 vs. 57.1 employees for the low tech. In the smaller category, the high and low tech establishments were virtually the same size, at 4.9 and 4.7 employees.

Branch plants are larger than both headquarters and single unit establishments. These differences are slight for establishments with less than 10 employees, but considerable for the larger size category. For establishments in the 10 or more category (Figure 2), branch plants average 143 employees vs. 89 for headquarters and 32 for single unit plants. A similar distribution exists for low tech establishments. For the high tech, larger size establishments, single unit plants are still the smallest size, but headquarters approach the size of branches.

Occupational Characteristics of the Workforce. Table 2 shows the average percentage of employees in each occupational category, by high and low tech establishments, and for the entire sample and two size groups. Key differences in the proportions of employees in different occupations are in the highest and lowest skilled occupations -- professionals and laborers. For the sample as a whole, the high tech establishments averaged 14.5 percent of their employees in the professional category vs. 5 percent for low tech establishments. In the laborer category, the average was 7 percent for high tech and 14 percent for low tech establishments. So while initially it appears that the employment in most occupations was similar between high and low tech establishments, there were important differences. Relative to low tech, high tech manufacturers had approximately three times the percentage of employees in the most highly skilled category, and one-half the percentage in the lowest skilled category.

These differences hold for both small and large size establishments. In both size categories, the high tech establishments had much higher percentages of professional employees than the low tech establishments, and much lower percentages of laborers. In addition, the small high tech establishments had a significantly lower percentage of employees in the lower skilled operator/fabricator category (12 vs. 20.5 percent). This last result is not surprising. The smaller plants are younger, and thus likely in the development stages of their product. Such work requires higher, rather than lower skilled labor.

A comparison of branch and single unit plants shows important differences between the types of establishments (Table 3). The high tech unit plants had significantly higher percentages of professional employees than low tech unit plants, and significantly lower percentages of laborers. The larger high tech unit plants also had higher percentages of executives and precision production workers.

Among branch plants, however, the picture is much different. There were no statistically significant differences between the high and low tech branch plants (except that shown for sales). Thus, branch plants, whether or not they are high or low tech manufacturing, can be expected to have similar labor force compositions. That is, these findings indicate that the percentages of professional or skilled workers employed by high and low tech branch plants is not likely to be different.

There also were differences between branch and single unit plants within technology categories. Within the low tech category for the entire sample, the branch plants employed a lower percentage of skilled production workers (precision production) and a higher proportion of less skilled production workers (operators/fabricators) than the unit plants. Within the high tech category, unit plants had higher proportions of employees in both the professional and precision production occupations, and much lower proportions in the less skilled occupations of operator/fabricator and laborers. For the larger plants (10 or more employees) the differences observed for the entire sample hold for the high tech establishments. There were no significant differences, however, between unit and branch establishments in the low tech larger size category.

One explanation for these differences between single unit and branch plants lies in the functions performed by each. Unit plants need more skilled workers because they perform the range of manufacturing functions including research and development, and machine and product design. Branch plants, on the other hand, focus largely on routine production activities that require primarily machine operation and product assembly.

The high technology establishments in the study also exhibited the typical high tech characteristic of a relatively large percentage of employees working in research and development (R & D). For the small establishments (less than 10 employees), differences between high and low tech are not statistically significant, but they are for establishments with 10 or more employees. The percentage of employees working in R & D for all large size high tech establishments was 10.8 percent vs. 4.2 percent for the low tech establishments. This large difference holds for all ownership types of firms. The most interesting differences, perhaps, are (1) those between branch plants and the other types for both high and low tech, and (2) the difference between the high and low tech branch plants. The percentage of employees in R & D in branch plants was considerably lower than for single unit and headquarters establishments -- less than half that for high tech and less than one-fifth for low tech branch establishments. In addition, the percentage of R & D employees in high tech branch plants was almost six times that of low tech branches.

In sum, there were distinct differences in the occupational structures between high and low tech establishments and between branch and unit plants. The high tech establishments in the nonmetropolitan counties in the West were similar to high tech industries in general. They had higher percentages of employees in the more highly skilled occupations, and lower percentages in the lower skilled occupations. These differences, however, were accounted for primarily by the single unit plants, as there were no statistically significant differences between high and low tech branch plants. A pattern of differences also existed between unit and branch plants, particularly in the high tech category. The unit plants employed higher percentages of professionals and skilled production workers, and lower percentages of less skilled production workers and laborers.

Sexual Composition of the Workforce. Another important aspect of the kinds of jobs generated by high tech manufacturing is the distribution between men and women. As job opportunities continue to decline in the male-oriented industries of farming, mining, forestry and related processing, rural families increasingly rely on the earnings of women. The existence of employment opportunities for women in growing industries will contribute significantly to alleviating economic stress on rural families and communities.

In the establishments studied, high tech plants employed a slightly higher percentage of women than low tech plants, 31 vs. 28 percent. Among plants with 10 or more employees, the difference widened to 32.5 vs. 26 percent, which is statistically significant. Figure 3 shows that branch plants primarily account for these differences. For both the sample as a whole and plants with 10 or more employees, high tech branch plants employed significantly higher percentages of women than low tech branches (30 vs. 23 percent, and 32 vs. 21 percent, respectively). The larger single unit high tech plants also employed higher percentages of women (33 percent) than low tech unit plants (27 percent).

A more complete picture of women's employment opportunities emerges in Figure 4, which compares the percentage of women employed in selected occupations in high and low tech plants. It is clear from this figure that while high tech manufacturers employed higher percentages of women overall, they did so in the lower skilled production and laborer occupations. In the professional occupations, the percentage of women was about twice as high in low tech manufacturers. In the higher skilled precision production occupations, high and low tech plants employed similar percentages of women. These differences also hold for each type of establishment (headquarters, branch, single unit).

Thus, while high tech plants employed a higher percentage of women overall, they did so only in the lower skilled production occupations. The low tech plants, on the other hand, provided considerably higher percentages of jobs for women in the professional/technical occupations.

Local Input Purchases. The nonmetropolitan economic development potential of high tech manufacturing cannot be estimated solely on the basis of direct employment generated. New industries create markets and stimulate demand for inputs (backward linkages), and thus broaden and deepen the local economy. Industries with strong backward linkages provide the impetus for a more dynamic economy and long term economic growth. Where local input linkages are absent, local income and employment multipliers will be low, and local income and employment expansion will be limited to increases in those activities that serve the workers and families in the new industry (Erickson). Thus, if high and low tech manufacturers maintain different market linkages, the aggregate local employment and income generated by manufacturers in these sectors may differ greatly.

Levels of local (county) input linkages are shown in Figure 5 for technology categories and establishment types. The pattern is the same for all establishments and plants with 10 or more employees. Overall, the high tech establishments purchased a statistically significant lower percentage of nonlabor inputs in the county than low tech establishments (34.4 vs. 41.8 percent). This difference was most pronounced among branch plants, with low tech branches purchasing almost half of their nonlabor inputs locally, versus less than 28 percent for high tech branches. Among single unit plants, low tech local purchases also were greater than high tech (41.3 vs. 36.4 percent), but there was no difference among headquarters establishments. Also, 35 percent of the low tech plants purchased over half their inputs locally, vs. 28 percent for high tech.

Additional analysis shows that besides technology and establishment type, other factors influenced the level of local input purchases. One is that the longer a plant was in its location, the less it tended to purchase locally. Larger plants, in particular, showed this tendency. The result is contrary to expectations, as it is generally believed that as businesses stay in an area longer they find local suppliers, or suppliers start up to provide needed inputs, thus increasing local purchases. Other strong influences are certain characteristics of a plant's location. Plants located in counties adjacent to metropolitan counties will tend to purchase less locally. Furthermore, as the number of manufacturing employees in the nearest metropolitan area increases, local input purchases decrease. This implies that local manufacturing plants are purchasing inputs from larger nearby metropolitan areas, either because local suppliers do not exist or are not competitive. On the other hand, the results showed that larger nonmetropolitan communities counter the effects of metropolitan areas. Plants located in more populous nonmetropolitan counties captured higher percentages of nonlabor input purchases. Finally, even after taking account of these other factors, the differences in the level of local input purchases between high and low technology plants still exists, particularly among branch plants and the larger plants. High tech plants will tend to purchase lower percentages of nonlabor inputs locally.

Conclusions and Implications

In the 1980s, rural economic development efforts increasingly have emphasized high technology manufacturing. This focus is based on evidence showing that high technology manufacturers (1) provide a source of rapid employment growth when the potential job outlook in agriculture, mining, forestry, and traditional rural manufacturing is gloomy; (2) provide employment opportunities for professional and skilled production labor, and as a result, increase the availability of higher paid jobs; and (3) are beginning to decentralize to smaller cities and rural areas.

The purpose of this publication was to examine the characteristics of high technology manufacturing establishments in nonmetropolitan counties of the West, determine the nature of their contribution to the local economy, and compare high and low tech manufacturing. The information came from a 1986 mail survey of high and low tech manufacturers. Issues examined were the amount of employment generated by high and low tech plants; the location of the studied high tech plants by town size and in relation to metropolitan areas; the occupational structure and sexual composition of the workforce of high tech vs. low tech plants; and the extent of non-labor local input purchases. Besides high and low tech categories, relationships were examined in terms of plant size and whether or not the plant was a headquarters with branches elsewhere, a branch plant, or a single unit plant.

The study showed that smaller towns and more rural counties apparently were not at any particular disadvantage as locations for high tech establishments. There were few differences in the percentage of high tech plants that were located in counties adjacent and not adjacent to metropolitan counties, nor in different town sizes. The main difference was that greater percentages of larger plants and branch plants chose locations in adjacent counties and in towns over 25,000 in population.

The study found that communities can expect high tech plants to generate at least as many jobs per plant as the traditional "low tech" manufacturing plants. High tech branch and single unit plants were slightly larger than similar low tech establishments, and high tech headquarters with branches elsewhere averaged more than twice as many employees as similar low tech plants.

There were distinct differences, however, in the occupational structures between high and low tech establishments, and between branch and single unit plants. The high tech establishments in the nonmetropolitan counties in the West were similar to high tech industries in general. They had higher percentages of employees in the more highly skilled occupations, and lower percentages in the lower skilled occupations. These differences, however, primarily were due to single unit plants, as there were no statistically significant differences between the occupational mix of high and low tech branch plants. A pattern of differences also existed between single unit and branch plants, particularly in the high tech category. The single unit plants employed higher percentages of professionals and skilled production workers, and lower percentages of less skilled production workers and laborers than branch plants.

Differences also existed when employment was examined by sex. High tech plants employed higher percentages of women than low tech plants. This was particularly true for branch plants. These higher proportions of women, however, were concentrated in the lower skilled production occupations. Low tech industries, on the other hand, provided considerably higher percentages of jobs for women in the professional and technical occupations, and also in the more skilled production occupations. Thus, if employment opportunities for women are a local development goal, high tech industries may provide them, but will tend to do so primarily in lower skilled occupations.

A final local economic impact is the linkages of high tech plants to other local economic sectors. High tech plants purchased a lower percentage of their nonlabor inputs locally than low tech plants. This pattern existed for large and small plants and for both branch and single unit establishments. In particular, high tech branches purchased a much lower percentage of nonlabor inputs locally than low tech branch plants.

The findings of this study provide at least partial answers to several questions about the role of high tech manufacturing in rural economic development. The first question that must be answered is, will such establishments locate in rural communities? Previous research and the companion to this publication (Barkley, Keith and Smith) found that there has been rapid growth of these industries in nonmetropolitan counties in recent years. The community and plant level data reported here show that both small towns and counties not adjacent to metropolitan areas were locations for high tech plants. Larger towns and counties adjacent to metropolitan areas were locations for higher percentages of the high tech plants, especially the larger ones, but the differences were not great. Thus, the goal of attracting high tech industry is realistic.

A second question is will high tech industries create as much employment as traditional manufacturing? The answer appears to be "yes" on two counts. One is that growth in manufacturing jobs over the past 15 years, and projected future growth, has been primarily in the high tech sectors. The second is that on a per plant basis, the high tech industries studied in the West generate more total employment.

A third issue concerns the differences in impacts between types of plants -- branch vs. single unit and headquarters plants. Knowledge of these differences is important because local development policies focused on one type may not fit the other. Branch plants are the ofcus of external recruitment efforts, while the other types are of local origin. If a branch plants of a high tech firm is the target or most likely opportunity, the resulting employment impacts will be similar to those of branch plants of any industry. Different jobs, particularly professional and skilled production jobs, generally will not be provided. While this may not meet goals of upgrading the local workforce, the match with local labor skills may be better. The jobs being lost, and thus needed, in most nonmetropolitan communities are not highly skilled or technical. Also, job opportunities for women are relatively good for low skilled production occupations in the high tech industries, but not in the professional job categories.

Three-fourths of the high tech establishments are not branch plants. The single unit and headquarters establishments provided significantly higher percentages of research and development, and professional, technical and skilled production jobs. Thus, these firms were more than just routine assembly operations. And although they provided fewer total jobs per plant than branches, smaller communities can more easily absorb smaller businesses. As these businesses grow, the community can more easily match their incremental service, labor and infrastructure needs. Furthermore, these businesses tend to be "home grown," and are thus good candidates for retention and expansion or entrepreneurial assistance program. In many cases such efforts are more efficient uses of a community's or state's scarce development resources than recruitment.

A fourth issue is the strong tendency for high tech manufacturers to purchase much lower levels of nonlabor inputs locally than low tech establishments. This conclusion is especially applicable to high tech branch plants -- the likely focus of recruitment efforts or results of expansion/decentralization plans of metropolitan-based firms. Communities that are recipients of high tech manufacturing will benefit from the direct employment, but much less so from backward linkages, relative to low tech industries. Thus, attracting the high tech plant may be easier than attracting its businesses, and communities will have to put special effort into taking advantage of linkage effects.

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Table 1. Percentage of High Tech Establishments Located in Towns of Different Size, by Establishment Size

	Town Size			
Establishment Size	Less than 2500	2500 - 9999	10,000 - 24,000	25,000 or more
Less than 10	24.2*	12.6	23.2	40.0
10 - 25	22.1	24.7	15.6	37.7
26 - 99	20.0	29.2	23.1	27.7
100 or more	11.8	23.5	35.3	29.4
All establishments	21.0	21.4	22.5	35.1

*Figures are the percentage of establishments in the respective establishment size category that are located in each town size category.

Table 2. Average Percentage of Employees in Each Occupation by Technology and Establishment Size.

Occupational	Entire Sample		≥10 Employees		<10 Employees	
Category	High Tech	Low Tech	High Tech	Low Tech	High Tech	Low Tech
Executives	18.4%	18.0%	13.2%	11.9%.	28.1%	24.7%
Professional	14.5	5.2***	12.1	5.6***	18.1	4.6***
Sales	5.5	6.5	5.2	6.6	6.0	6.4
Clerical	9.2	9.3	8.4	8.2	10.4	10.6
Precision Production	20.3	20.6	20.2	17.7	20.8	23.8
Operators; Fabricators	25.1	26.4	32.5	31.7	12.1	20.5***
Laborers	7.0	14.0***	8.4	18.3***	4.4	9.4**

**Means significantly different at the .05 level.
***Means significantly different at the .01 level.

Table 3. Average Percentage of Employment in Each Occupation for Branch and Single Unit Plants, by Technology and Size

Occupational	BRANCH PLANTS				SINGLE UNIT PLANTS			
	Entire Sample		≥10 Employees		Entire Sample		≥10 Employees	
Category	High Tech	Low Tech	High Tech	Low Tech	High Tech	Low Tech	High Tech	Low Tech
Executives	12.4%	10.8%	11.1%	9.5%	20.9%.	19.5%	14.5%	12.6%*
Professionals	10.1	6.8	9.3	6.2	16.1	4.8***	15.1	7.9***
Sales	4.0	7.1*	2.6	5.3*	5.4	5.9	5.8	6.4
Clerical	7.9	8.6	7.5	7.2	9.6	9.2	8.6	8.0
Precision Production	17.6	15.8	18.2	16.2	22.0	21.1	23.0	17.5*
Operators; Fabricators	36.5	35.8	39.8	37.4	20.8	25.1	28.5	30.8
Laborers	11.4	15.1	11.5	18.2	5.2	14.3***	6.2	19.6***

*Means significantly different at .10 level.
**Means significantly different at .05 level.
***Means significantly different at .01 level.

Figure 1. Percentage of High Tech Manufacturers in Counties Adjacent and Nonadjacent to Metropolitan Counties, by Establishment Size.

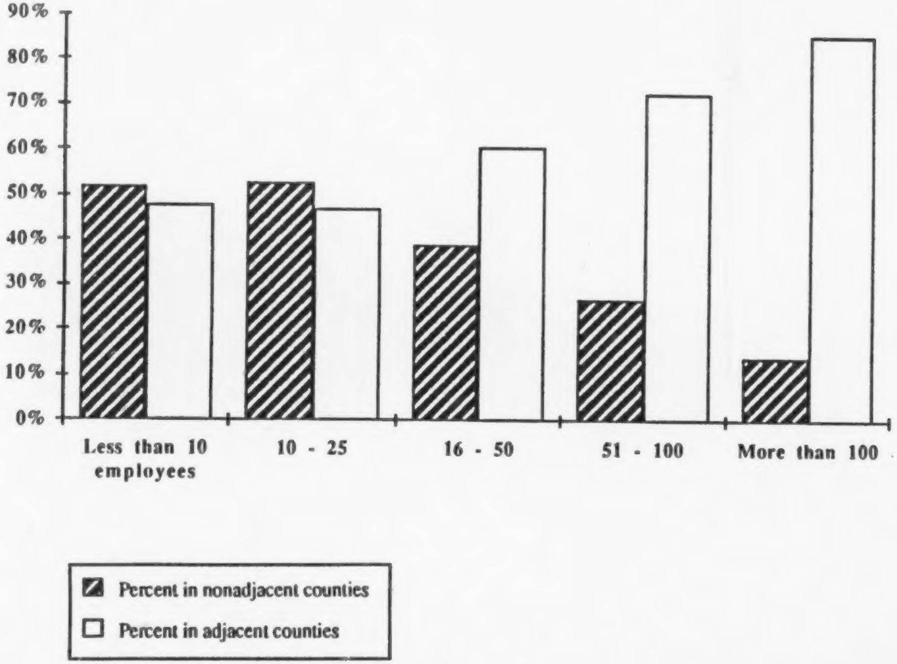


Figure 2. Average Number of Employees per Establishment Type and Technology Categories, 10 or more employees.

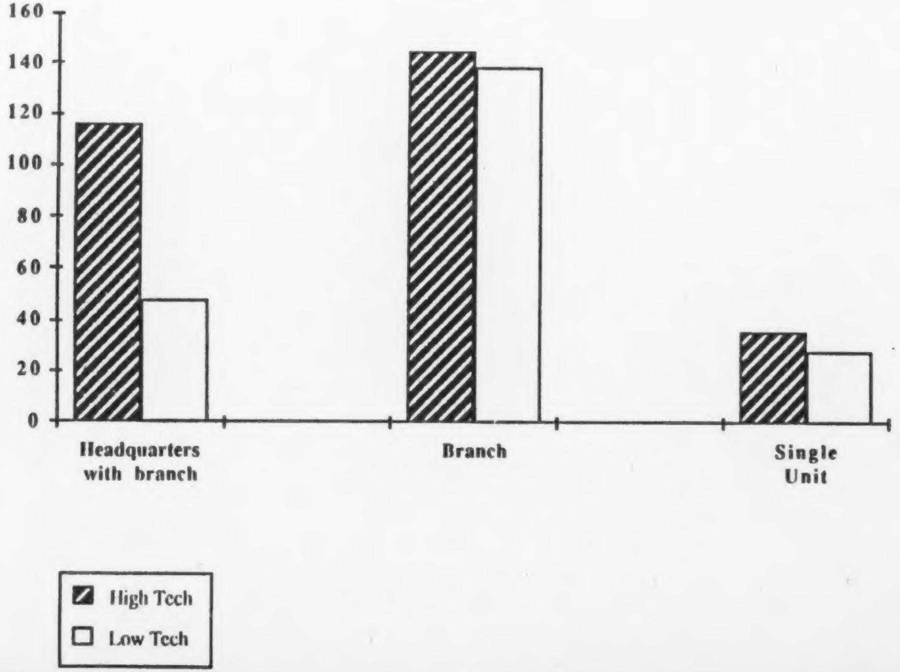


Figure 3. Average Percentage of Women Employees, by Technology and Establishment Type.

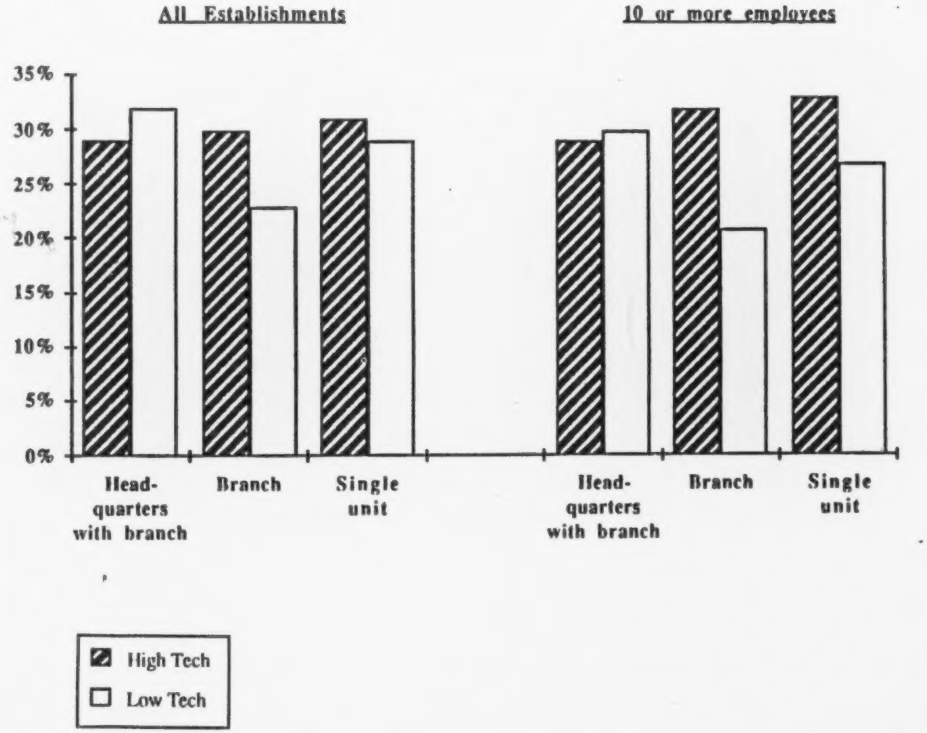


Figure 4. Average Percentage of Women Employees in Each Occupation, by Technology and Establishment Type.

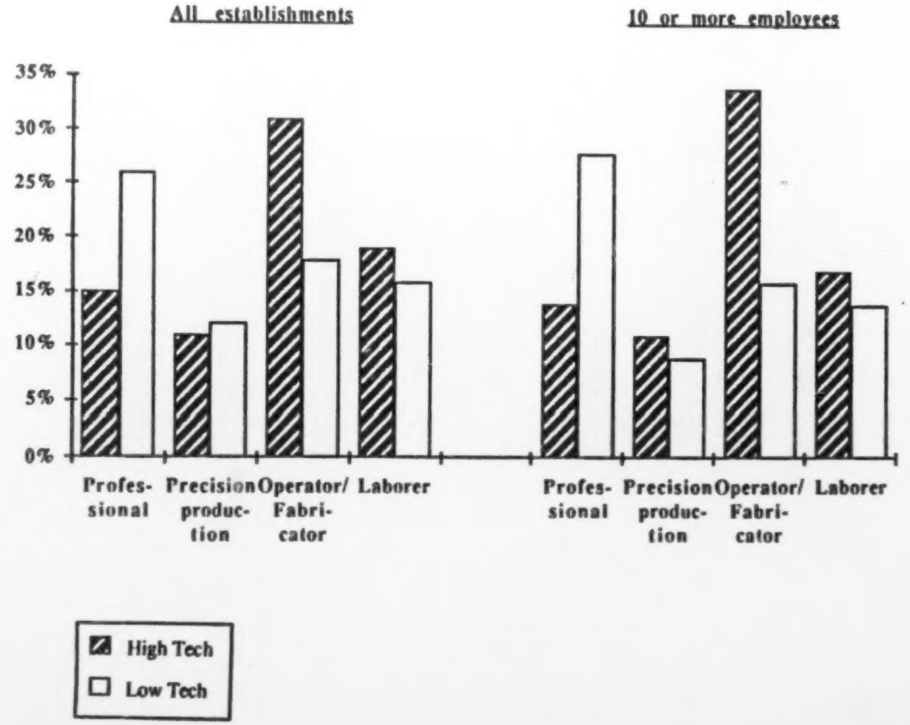
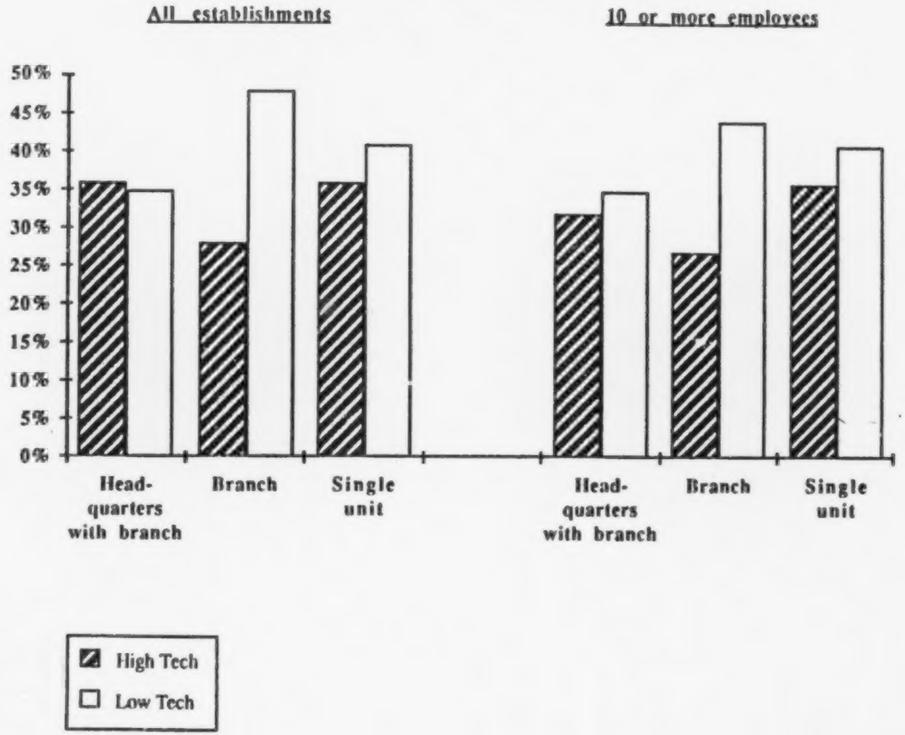


Figure 5. Average Percentage of Nonlabor Input Purchases Made in the County, by Establishment Type and Technology Category.



APPENDIX A: HIGH TECHNOLOGY INDUSTRIES

2812	Alkalies & chlorine
2813	Industrial gases
2816	Inorganic pigments
2821	Plastic materials, synthetic resing, and nonvulcanizable elastomers
2822	Synthetic rubber
2823	Cellulosic man-made fibers
2824	Synthetic organic fibers
2831	Biological products
2833	Medicinal chemicals & botanical products
2834	Pharmaceutical preparations
2861	Gum & wood chemicals
2865	Coal tar, crudes & cyclic intermediates, dyes & organic pigments
2891	Adhesives & sealants
2892	Explosives
2893	Printing ink
2895	Carbon black
2899	Chemicals & chemical preparation n.e.c.
2911	Petroleum refining
3482	Small arms ammunition
3483	Ammunition
3484	Small arms
3489	Ordinance & accessories
3511	Steam, gas, hydraulic turbines
3519	Internal combustion engines
3531	Construction machinery & equipment
3532	Mining machinery
3533	Oil machinery
3534	Elevators & moving stairways
3535	Conveyors
3536	Hoists, industrial cranes
3537	Industrial trucks, tractors, trailers, stackers
3561	Pumps & pumping equipment
3562	Ball & roller bearings
3563	Air & gas compressors
3564	Blowers & exhaust & ventilation fans
3565	Industrial patterns
3566	Speed changers, industrial high-speed gears
3567	Industrial process furnace & ovens
3568	Mechanical power transmission equipment
3569	General industrial machinery
3572	Typewriters
3573	Electronic computing equipment
3574	Calculating & accounting machines
3576	Scales & balances
3579	Office machines
3622	Industrial controls
3623	Welding apparatus
3624	Carbon & graphite products
3629	Electrical industrial apparatus
3651	Radio & TV receivers
3652	Phonograph records & tapes
3661	Telephone & telegraph apparatus
3662	Radio-TV transmitting
3671	Radio & TV electron tubes
3672	Cathode ray TV picture tubes
3673	Semi-conductors
3675	Electronic capacitors
3676	Resistors for electronic apparatus
3677	Electronic coils, transformers
3678	Connectors for electronics
3679	Electronic components, n.e.c.
3721	Aircraft
3724	Aircraft engines & engine parts
3728	Aircraft parts & equipment, n.e.c
3761	Guided missiles & spare vehicles
3764	Guided missiles & space propulsion units
3769	Guided missiles & space parts & equipment n.e.c.
3811	Engineering, lab, science research instruments
3822	Automatic controls for regulating residential & commercial environment
3823	Industrial instruments for measuring and control of process variables
3824	Totalizing fluid meters & counting devices
3829	Measuring & controlling devices
3832	Optical instruments & lenses
3841	Surgical and medical instruments
3842	Orthopedic & surgical supplies
3843	Dental equipment
3851	Opthalmic goods
3861	Photographic equipment
3873	Watches, clocks

Senator BAUCUS. Thank you, Dr. Smith. Obvious there are a lot of problems facing rural American economic development. What in your opinion, is the one or two highest on the list? Some suggest access to capital, telecommunications, infrastructure, human resources. Some suggest folks in some of these areas just don't know what is available, don't have the information to find out, don't have the means to find out what is available. Do you think the problem is cultural? Is it attitudinal? Are we just too big a country? What is going on here? I start with you, Mr. Waldhorn.

Mr. WALDHORN. Well, I think it is lack of the set of ingredients which I was talking about which we might call economic infrastructure—as distinguished from physical infrastructure. There is a line in the movie The Graduate which applies here—the older fellow puts his arm on Dustin Hoffman's shoulder and says plastics is the future. And, of course, it is not plastics. And I don't think it is training by itself or capital by itself or technology by itself or entrepreneurship by itself.

And when we discuss Federal intervention, I worry because they are often narrowly targeted to provide one of those ingredients. And the lesson we have seen of economic growth both in the United States and worldwide is that is the presence of four or five key elements together kind of make a rich broth out of which entrepreneurs wil take an existing economic base and some new ideas that are developing and create some wealth and create some of the forward movement that makes an economy drive. And it is the draining away of those resources from rural areas that has created this incredible division which is becoming a political problem in virtually every State we work in. So, it is how to put those resources out there which is, in effect, analogous to what we did with Rural Electrification and TVA, but it is doing it with these soft factors, not doing it with the hard factors.

Senator BAUCUS. You mentioned something that is interesting to me; that is, in Nebraska you said that there is a coming together of sorts between the urban and rural communities. For example the Omaha crowd was helping some of the other parts of Nebraska, sharing and working together. Is that a major factor to prosperity for rural areas in a State, or can various communities go individually and separately?

Mr. WALDHORN. I think the latter course is very disheartening. In one place we worked, we were told that any recommendation we made for a particular set of institutions had to be multipiled by four because the State legislature always divides it up into four places. And that led nowhere. A lot of these systems are inherently State systems and need to be molded at the State level.

But even beyond that, one of the most heartening things we have seen is, as we come out of a couple of decades of special interest politics, when States get into trouble, there seems to be a lot of potential for people identifying together what they need to make the most of what they have and then say, well, let's change the State university and let's rewrite their banking laws and let's do X and let's do Y. And things are not magic. They can be complemented by Federal support in these very broad areas in terms of interest rates, in terms of Federal investment in R&R, in terms of Federal aid to education. But it is that creation of viable State systems.

And if you go back to what made California become a very successful economy after Earl Warren and Pat Brown, and for the private sector as well, there was a sense of building great systems.

Senator Baucus. And sunshine too.

Mr. Waldhorn. The sunshine helped. There was a lot of brain drain into the State of good people, but there was also a willingness to invest in the State unversity. There were banks, like the Bank of America that had tremendous resources and a growth outlook at that point in time. And we need to bring people together around that notion that we're going to build some systems to make the most that we have. If we don't, if people come in individually to do it locality by locality, if you do it sector by sector, which again is what distrubs me about particular programs, we are not going to create that broth. We're going to divide it up so much. So, it becomes a question of major systems change and making sure—one last point in this regard.

In some of our work in Nebraska and other places, we faced a real hard choice. There are towns of 10 or 100 or 1,000. Nobody whats to say these towns are going to shut down. Nobody says that. It's not polite. You can't say that. In fact, if you could take in some of these States, State resources and put them in cities of 10,000 to 30,000, if you could get the telephone companies to invest in the telecommunications infrastructure, if you could open a branch of the State university there, a State college, and began to provide all these ingredients we have all been talking about this morning, those places could become complementary to the major growth centers, Omaha, Lincoln or Denver.

I don't think we have yet demonstrated in too many of our States the political will to really take those steps, to do the American equivalent to what the Japanese are doing with their technopolis program where they are building 24 technopolis centers involving public and private resources. We haven't learned to do that, and that would seem to be a major direction, to build this economic infrastructure in rural as well as urban areas, but we're going to have to pick where we're going to do it, and we're going to have to do it for the whole State.

Senator Baucus. But in your judgment do we have to follow the Japanese model? We're a different culture. We're a different society. Can't this be done without the Japanese technopolis?

Mr. Waldhorn. We don't do it that way and we shouldn't.

Senator Baucus. Well, that is begging the question. But how do you think we should address the problems?

Mr. Waldhorn. The lesson we have seen is that leaders can create that kind of vision. The ex-governor of Mississippi spoke at a meeting we had last week and talked about education reform he accomplished there. And it is an educative task of creating a shared vision of where a State wants to go.

But it is not only the educative task. That is step one, to rise above special interests. Even when you do that, as we found in our work in Wyoming, for instance, when oil goes from 28 to 11, you can have the best vision in the world and if you're in a fair amount of trouble, you may need some careful Federal investments when things are really tough. You have to put them both together. If you just have the Federal investments without the vision, if you take

Federal and State resources and divide them up among 8 or 10 State colleges that expand to meet the curriculum desires of faculty, not the economic needs of the State, if you don't have a coherent vision people are working toward—and we've had that lots of times. We have——

Senator BAUCUS. Let's take digital switching. How do you get a telephone company to put digital switching in a small town if the company feels it just doesn't have quite the rate of return in that town that they would like to have?

Mr. WALDHORN. I am not sure we have developed the regulatory schemes to do this. If there are 8 or 10 communities of 10,000 to 30,000, maybe you make that a priority. Again, the legalities of this are very difficult. This gets right down to how we regulate companies, to some extent deregulate them. What can we offer them?

You know, there have been experiments in negotiated investment strategy a few years ago. Phil Burgess talked about the regional commissions. We have a very uneven pattern of experiments of bringing all the actors in a room around a table like this, and we're going to need to have another generation of those experiments. And they are messy and unwieldy and slow. We're going to need to aim high. We built water systems that way after World War II. We dealt with our housing crisis that way after World War II. California located and built a great university system that way. We have done this, and we're going to need to invent new mechanisms to do it.

Senator BAUCUS. A major focus of the next Congress is going to be on how to make the United States more competitive. Do you think that if we become more competitive and build up our export base that there may be a proportionately greater opportunity for rural America to prosper? How can we ensure that this happens?

Mr. WALDHORN. In the work we did in India over the past year, you see areas that could provide tremendous export crops, but they can't get the food processing equipment working, so they're not in that market yet. Now, there is a market for rural America to export more food processing. We recommended some of that in Nebraska. But they are going to need new technologies out there, not for producing agriculture, but for producing new kinds of products for food processing. One could multiply examples where we are going to need to supply that technological and training wherewithal.

And I guess I'd have fear that if we did it through traditional single-purpose programs, even the Job Training Partnership Act which has gotten some good press this morning, that by themselves, they don't share in understanding some coherent economic rationale. They don't have that feature of getting everybody around a table and saying what are we trying to do.

Senator BAUCUS. Do any of you have any additional points you want to make? Did someone earlier say something outrageous that you think has to be corrected?

Dr. GILLIS. I would like to respond a little to your last question.

Senator BAUCUS. Yes.

Mr. WALDHORN. I have worked in Pennsylvania for a number of years with rural communities in helping them to sit down individually and think about economic development strategies. And the one thing that I have noticed in working with these communities is that you can tell in the first meeting with them how successful they are going to be by the quality of the people in the room, whether they have that innate leadership capacity or not. It is very critical whether they have that or not. And that seems to be the one thing that really needs to be there.

Senator BAUCUS. That is true in most anything.

Dr. SMITH. My final comment would be following on your comment about the way the Japanese do it, but not specifically that. Do we really want to focus specifically on rural America as a Nation? And that may require a change in our philosophy of how we do it. In the past we have said, well, we will just let it go or we have a pseudo-market approach and we see how that has worked.

And it is probably very true that not every town is going to survive and grow. But if we really want to pay attention to rural America feel there is something valuable there, we may have to change our philosophy, and that may mean telling a company or a subsidizing a company to say, yes, we want those digital switches there. Or maybe take an example from the European Economic Community which does take a more active approach and tries to maintain economic vitality in rural communities by specifically pointing policies in that direction.

Senator BAUCUS. I very much agree with that.

I want to thank you all very much for your contribution.

You have been very, very helpful. Thank you for taking the time and effort to come here. I appreciate it.

The hearing is recessed.

[Whereupon, at 12:24 p.m., the Subcommittee was recessed.]

TO IDENTIFY PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA

WEDNESDAY, JULY 13, 1988

U.S. SENATE,
SUBCOMMITTEE ON RURAL ECONOMY
AND FAMILY FARMING,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met at 12:10 p.m., in room SR-428A, Russell Senate Office Building, Hon. Max Baucus (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator BAUCUS. The Subcommittee will come to order.

I want to first apologize to those who had to change their schedules in order to accommodate this afternoon's hearing. And I want to thank witnesses for making those changes.

This is the second in a series of hearings that I am holding on the prospects for economic development in rural America.

There are parts of America that are very bright and prosperous. Some of those parts tend to be on the coasts, some are in the southern part of America, some are in the heartland. But there are also many holes in that prosperity. Those holes tend to be in rural America.

Throughout the history of this country, the Government has had a policy of affirmatively, positively developing programs to ensure that rural America prospers. We have done that because we are one Nation. Our national motto is "E pluribus unum," "One out of many."

Unfortunately, during the last 8, 10 years, that policy has changed. Our deregulated business environment, for example, whether it is the transportation industries, air, bus, rail, or in telecommunications combined with strong drives to reduce the Federal budget deficit has put rural America in a distinct disadvantage in being able to compete in today's global marketplace.

Programs tend to be cut first from rural America rather than cut from other parts of the economy partly because rural America does not have the same lobby, the same number of voters, as does urban America.

For a whole host of reasons, the U.S. Government in part is a cause of the relative decline in prosperity in rural America. Over the last 8 years, the Administration has deliberately scuttled affirmative policy toward rural America which began with the Northwest Ordinance and continued through the rural electric co-op programs and other farm programs. Programs have been starved of appropriations necessary to be effective.

I think that these actions have been a disservice not only to rural America but to our country as a whole. We are picking and choosing among parts of the country, rather than trying to make the whole Nation grow and prosper.

To indicate the nature of this trend, I have behind me some charts that tell the story.

The first chart shows the rural-urban unemployment gap. And you can see from the chart that the blue line, for those of you farther away, represents urban unemployment and the red line indicates rural unemployment. We can see that from the period 1973 to 1979 urban unemployment was higher in each of those years than was unemployment in rural America.

What has happened? Those lines crossed in the year 1979. Beginning in 1979 and each of the following years, rural unemployment has been higher than has urban unemployment.

The second chart indicates that rural incomes have also fallen behind.

Beginning in 1975 urban incomes increased steadily over rural incomes. In 1987 urban areas had a per capita income of $17,000 compared with rural area per capita income of $12,500. That is a 30 percent income differential between urban and rural America.

You will also notice that the lines are diverging. They are diverging as the gap between urban income and rural income is becoming greater.

As the third chart shows, the consequences of higher unemployment and lower income is that a growing number of people are moving out of rural America. The chart makes it very clear that prior to 1982, rural America had a healthy net in-migration. More people moved into rural America than moved out prior to 1982.

Since then, however, we have had a serious net out-migration from rural America. In 1982, 20,000 more people left rural America than moved in. The next year, that number rose to 350,000. Three years after that the number became 600,000.

The latest data indicate that in 1987 there will be a net out-migration from rural America of over 1 million people. We in Congress must work to reverse this trend. I asked the Congressional Research Service some time ago to identify and summarize the major American policies that historically affect rural America. Today I am releasing those two studies.

One relates to rural policy in today's context and the other is a history of rural policy since the founding of our country. Those studies show as I stated earlier, that America has had historically an affirmative policy to help rural America, and that that policy has been scuttled during this decade.

I hope that the witnesses today will help us focus on some of these problems.

[The prepared statement of Senator Baucus follows:]

STATEMENT BY SENATOR MAX BAUCUS
RURAL ECONOMY AND FAMILY FARMING SUBCOMMITTEE
JULY 13, 1988

INTRODUCTION

WELCOME TO THIS MORNING'S HEARING.

THIS IS THE SECOND IN A SERIES OF HEARINGS I WILL BE HOLDING ON PROSPECTS FOR ECONOMIC DEVELOPMENT IN RURAL AMERICA.

AMERICA HAS BECOME A NATION WITH A "SWISS CHEESE" ECONOMY.

WE HAVE PROSPEROUS, GROWING URBAN AREAS -- ESPECIALLY ON THE COASTS. AND WE HAVE DEPRESSED NATURAL RESOUCE-BASED ECONOMIES IN MUCH OF THE BALANCE OF THE COUNTRY.

CONSEQUENTLY, THE RURAL STANDARD OF LIVING IS DECLINING AND HARDSHIP IS GROWING.

WHAT'S HAPPENING

Unemployment

Rural America has seen major employment cutbacks in all natural resource-based and manufacturing industries.

As indicated by the first chart, from 1973 through 1979, rural America enjoyed a lower unemployment rate than urban America.

Beginning in 1980, however, the situation changed. The disparity between rural and urban unemployment rates has grown wider ever since.

In 1986, the rural/urban unemployment gap was 1.7 percent. That is almost six times the gap which existed in 1980.

Low Incomes

As the second chart indicates, rural incomes have fallen far behind those in urban areas.

In 1987, urban areas had a per capita income of $17,000, compared with $12,500 in rural areas.

In other words, rural incomes are lagging 30 percent below their urban counterparts.

People are Moving Out

These statistics only tell part of the story. The other part of the story is about what happens to the people who live in rural America.

The fact of the matter is, many of them have no choice but to move out. Rural America is losing its most valuable asset -- its people. Our young, educated entrepreneurs are moving out.

As the third chart indicates, prior to 1982, rural America had a healthy net in-migration. Since then, however, we have experienced a net out-migration that has multiplied every year.

In 1982, 22,000 more people left rural America than moved in. In 1983, that number rose to 351,000. In 1985, it nearly doubled to 632,000. The latest data indicate that 1987 will

SHOW A NET OUTMIGRATION FROM RURAL AMERICA OF OVER 1 MILLION PEOPLE.

THE FACTS ARE CLEAR. RURAL AMERICA IS NOT DOING VERY WELL. UNLESS WE TAKE ACTION TO REVERSE THIS TREND, FUTURE PROSPECTS ARE DIM.

IN ORDER TO COMPETE IN TODAY'S GLOBAL ECONOMY, RURAL AMERICA MUST DIVERSIFY.

IT MUST SHIFT THE EMPLOYMENT BASE AWAY FROM NATURAL RESOURCE-BASED INDUSTRIES TO MANUFACTURING AND SERVICE INDUSTRIES.

CRS REPORTS

SOME TIME AGO, I ASKED THE CONGRESSIONAL RESEARCH SERVICE TO IDENTIFY AND SUMMARIZE FOR ME THE MAJOR AMERICAN POLICIES HISTORICALLY AFFECTING RURAL AMERICA.

TODAY, I AM RELEASING TWO STUDIES. ONE RELATES TO RURAL POLICY IN TODAY'S CONTEXT. THE OTHER IS A HISTORY OF RURAL POLICY SINCE THE FOUNDING OF THIS GREAT NATION.

THESE STUDIES SHOW THAT FOR TWO HUNDRED YEARS, THE FEDERAL GOVERNMENT HAS TAKEN STRONG, POSITIVE ACTION TO PRESERVE RURAL AMERICA.

WE HAVE ALWAYS WORKED TO ENSURE THAT RURAL AMERICA HAD THE TOOLS NECESSARY TO COMPETE IN THE ECONOMY OF THE TIME.

IT IS UNACCEPTABLE THAT AFTER TWO HUNDRED YEARS OF SUCH EFFORTS, THIS COUNTRY HAS BECOME A NATION WITH A DUAL STANDARD OF LIVING BASED UPON GEOGRAPHIC LOCATION.

AS THESE STUDIES SHOW, OUR HISTORY IS REPLETE WITH EFFORTS BY THIS BODY TO FIGHT AGAINST THIS CONSEQUENCE.

I AM COMMITTED TO ENSURING THAT THOSE PRINCIPLES CONTINUE UNABATED.

THAT IS WHY I AM CONDUCTING THIS SERIES OF HEARINGS -- TO DEVISE NEW POLICIES TO HELP RURAL AMERICA DIVERSIFY ITS ECONOMY AND COMPETE IN TODAY'S GLOBAL MARKETPLACE.

THE KEY QUESTIONS

THROUGHOUT THIS HEARING, I WILL BE ASKING THREE QUESTIONS:

(1) WHAT ARE THE PROSPECTS FOR DIVERSIFYING RURAL AMERICA'S ECONOMIES?

(2) WHAT TOOLS DOES RURAL AMERICA NEED TO MAKE THOSE PROSPECTS A REALITY?

(3) WHAT IS THE FEDERAL GOVERNMENT'S ROLE IN PROVIDING THOSE TOOLS?

LAST HEARING

LAST HEARING, WE SPENT A LOT OF TIME TALKING ABOUT THE TOOLS RURAL AMERICA NEEDS FOR FUTURE GROWTH.

WE HEARD THAT THOSE TOOLS INCLUDE AN ADEQUATE TRANSPORTATION NETWORK, AN ADEQUATE TELECOMMUNICATIONS INFRASTRUCTURE, ACCESS TO CAPITAL, ACCESS TO THE LATEST TECHNOLOGIES, AND WORKABLE

EDUCATION AND RETRAINING PROGRAMS. IN ADDITION, WE TALKED ABOUT THE CRITICAL NEED TO ADDRESS THE ORGANIZATION OF RURAL DEVELOPMENT POLICY, BOTH AT THE FEDERAL LEVEL AND AT THE REGIONAL LEVEL.

THIS HEARING

TODAY, I WOULD LIKE TO GET MORE SPECIFIC AND FOCUS ON MY THIRD QUESTION -- WHAT IS THE ROLE OF THE FEDERAL GOVERNMENT IN PROVIDING THESE TOOLS?

I LOOK FORWARD TO YOUR TESTIMONY.

Senator **Baucus**. I am very happy to have with us the very able Senator from South Dakota, who has spent a very large part of his time devoted just to this subject.

Before we get to the witnesses, I would be honored to have the Senator from South Dakota make any statement he may wish to make at this time.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator **Pressler**. Thank you, Mr. Chairman. And I want to congratulate you on holding this hearing and to continue this examination.

I might say with a bit of pride that I have two young men from South Dakota, Mr. Miller and Mr. Prehin from Freeman, SD, who are Future Farmers of America, who are taking a special interest in this hearing. Would they stand up back there.

We are glad to have you here in Washington watching Government at work, and I know you are from a small town, a rural area, and are very interested in this.

Let me also say that my State fits into the focus of this hearing. We have about 70,000 people living on 50 million acres, so we are indeed the very essence of what we are talking about.

We have had some struggles in our area. We have a current drought. We have continued problems. On the other hand, we have some positives. I might say that lately South Dakota has enjoyed the highest growth rate in the Nation for manufacturing jobs, for the first two quarters of 1988.

One example of this success is the Rapid Company, which recently moved to Howard, SD. Rapid officials worked with the state of South Dakota to put together a financing package that included tax exempt bonds, funding from an industrial road fund, and money from a newly revolving economic development fund.

So there are steps going forward. Indeed, Rapid Company has exceeded everyone's expectations. Growth of the plant has been so substantial that there are not enough people in the plant's home county to fill the available openings. In fact, there are currently only 19 unemployed people in Minor County.

So I look forward to today's testimony and discussion. And Mr. Chairman, I want to commend you for holding this hearing, because since deregulation of the transportation and deregulation of some of the other industries, we find less and less services available.

This also could carry over even into hospitals and nursing homes, which is not the focus of this hearing. But we have in South Dakota 1,000 doctors, of whom 500 live in one of our two—in our major cities. It is very hard to have medical services out in rural America.

So there is a broad range of things. And one way to restore those other services is to restore prosperity there.

So I look forward to today's testimony. I note that the leadoff witness is my good friend and former Senate colleague Jim Abdnor, who is doing an outstanding job as Administrator of the Small

Business Administration. So I look forward to his input and to the input of the other outstanding witnesses today.

Thank you.

[The prepared statements of Senators Dixon and Kasten follow:]

July 13, 1988

Statement by Senator Alan J. Dixon

Committee on Small Business
Subcommittee on Rural Economy and Family Farming
Hearing on Prospects for Economic Development in Rural America

Mr. Chairman, this year's drought has once again focused our attention on the difficult circumstances under which residents of rural America make their living. Woefully dry conditions, aggravated by searing heat, have parched the land and devastated crops. Thousands of farmers in Illinois and across the nation are wondering how they will survive. As we saw in the early 1980's, a crisis in the farm community impacts more than those directly dependent on agriculture. The whole rural economy is strained as displaced farmers compete for limited jobs, limited support services, and limited development opportunities. Without a growing economic base, our rural communities cannot hope to respond to these catastrophes of nature. I am afraid that for many in our nation's breadbasket it may be too late.

Having heard personal accounts of tragedy and frustration from our constituents, I am sure that my other colleagues on this Subcommittee on Rural Economy will agree with me that the answer to their problems is: diversity. One industry cannot predominate a geographic area. One type of worker cannot predominate a particular labor pool. One department of the federal government cannot predominate assistance efforts directed at rural America.

We must diversify our rural economic base through innovative business development. Both large and small business operations are needed. We must diversify the capabilities of our rural labor pool through training and education. Both high and low technological processes need literate, adaptable workers. We must diversify our approach to rural assistance through several departmental programs. Rural economic development needs coordinated help.

Having remarked on the need for diversity, I am pleased to see that we have a diverse panel of witnesses before us today. We are privileged to have experts from the Department of Agriculture, the SBA, the REA, the academic community, as well as others experienced in rural economic development. I look forward to their testimony.

If we are to help our nation's rural areas recover from their downward slide, we will need the active support of all levels of government. Our nation grew strong through the work of our rural citizens, and now we should use that strength to help them work.

STATEMENT OF SEN. ROBERT W. KASTEN, JR.

SENATE SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING

Hearing on Prospects for Economic Development in Rural America

July 13, 1988

Thank you, Mr. Chairman. The subject of rural economic development is one which should be of concern to all Americans. SBA Administrator Abdnor points out that 26% of our people live in non-metropolitan communities of under 50,000 population. Yet from the sparsely populated, vast rural areas, much of the food, forest and mining products for this country and the world are produced.

Our witnesses today wil be describing some of the conditions, problems, opportunities of rural America. They will also outline programs that are in place or that we should be considering to assure that rural Americans share in the American dream. Certainly the drought plight has focussed recent attention on but some of the concerns of facing this sector of our economy.

I am pleased that one of the witnesses that will be appearing today is Professor Glen Pulver, an Agricultural Economist from one of this countries finest educational resources-- the University of Wisconsin at Madison. The points which he, and other witnesses raise, illustrate the changing scene in rural America, and the need for adequate federal, state and local cooperation among both private and public entities required to address the future of rural America.

There are very special considerations in the consideration of rural economic development. Transportation and communication requirements are made more difficult by the huge distances often encountered between rural producers and their markets. And there are probably as many different solutions to the economic development of this sector as there are specific areas seeking development.

Though the federal government has a cooperative role to play in this regard in transportation, education and other aspects, most all of our witnesses recognize the most important role, because they are the ones on the scene, of the state and local government and private entities.

Also, we must recognize the importance of small businesses in the rural economies. Therefore, policies which hurt small business generally, could have devastating impacts on the rural economy. In this regard I echo the concerns of Administrator Abdnor about Congress mandating such things as increased minimum wage, mandated health coverage, parental leave legislation and the like.

I look forward to the testimony we will hear today on this many-faceted situation which we must address to as America, both rural and metropolitan, approach the 21st century. Thank you, Mr. Chairman.

Senator Baucus. Thank you, Senator.

With that, we will turn to our witnesses. First, we are very privileged to have with us Mr. Roland Vautour, who is the Under Secretary for Small Community Rural Development for the Department of Agriculture. Mr. Vautour, I again want to thank you for changing your schedule to accommodate us today. Thank you very much.

STATEMENT OF HON. ROLAND R. VAUTOUR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. Vautour. Thank you, Senator. Mr. Chairman, Senator Pressler, and other Members of the Committee, I appreciate this opportunity to be with you today to discuss a topic of importance to you and to all of us who are committed to rural America and its people. And before I get into my actual recorded comments, if you will, there are a couple of observations I would like to make.

Two percent of the population of the United States is producing all of the food and fiber required by the United States in total and a good part of the rest of the world in addition. Yet, 27 percent of the population of the United States live in a rural area.

And the most troubling statistic I think is that 50 percent of the family farms in the United States depend on off-farm income for a measure of livelihood and certainly to make the farm an economically viable unit. And obviously, that off-farm income to no small extent is going to depend on whether we in fact are able to produce jobs at the rural level.

The commitment to rural America and its people can trace its roots back to the founding of the U.S. Department of Agriculture. Likewise, rural development has been a primary focus at USDA for some time. In fact, rural development can trace its beginnings back to 1955, when USDA launched a comprehensive rural development program for the first time.

To reinforce that bond and to bring to the forefront just how committed we in the Department and the Administration are, last year we unveiled a six-point rural regeneration initiative that detailed our strategy to continue rebuilding, revitalizing, and recharging rural America.

It is a strategy that I believe in wholeheartedly and one that I am enthusiastic about. The purpose or thrust of the USDA's six-point initiative can best be described by words like redirect, target, focus, highlight, commit, and regenerate.

Paired with the tools and resources of USDA, rural America is on the move. Before I begin outlining each of the six points, I would like to say that successful rural development activities and policies mandate cooperation, communication, and dedication by many players here in Washington and in each of the States. While USDA has been charged to lead the way in revitalizing rural America, it is a team effort that includes such players as the Department of Education, Labor, Health and Human Services, Defense, Housing and Urban Development, Interior, and Transportation.

Other players include, and by no manner or means should we demean the roles that they play because they are very, very major, the Small Business Administration and the Environmental Protection Agency, as well as the Economic Development Administration, and a host of other councils and commissions.

In an effort to better address the needs of rural America, President Reagan established the Task Force on Rural Communities, consisting of 20 high-ranking Government officials. The task force considered many concepts in its search for a proper Federal response to rural America's needs while making a report to the economic policy Cabinet council at the White House.

After considering the task force's suggestions, the Cabinet council responded with the following plan. The task force on rural communities will become a continuing working group on the economic policy Cabinet council, and that the Chairman of that task force or the Chair would be vested in the Secretary of Agriculture.

Secretary Lyng has asked Deputy Secretary Myers to serve as the day to day working head of the task force. The task force has been given the mission to seek better coordination of all Federal rural development programs and to hold meetings and hearings on the effects of Federal programs and regulations on rural communities and to develop further policy proposals for consideration by the economic policy council.

In addition, executive branch agencies having rural development programs have been challenged with formulating initiatives to address the problems facing rural America.

With this vast network in place, I will begin highlighting our six-point strategy. A key reason why rural regeneration is happening is because of the cooperative spirit between Washington's Federal agencies and the State and local leaders. The emphasis is on the development of local leadership, leadership that is aware of what is available and how to allocate those resources and programs the best way they see fit.

Point one, increased role for extension service in developing leadership. Leadership in my judgment is the key element that will lead to a revitalized America, and leadership at the local level.

The Department of Agriculture has identified the development of leadership at the local level as one of its highest priorities. Indeed, developing and encouraging local leadership plays a critical role in the success of our rural communities.

Local leaders are in the logical position of being able to identify their unique needs for rebuilding and expanding their community's economic base. USDA believes that developing and nurturing rural leaders is one of the surest ways to encourage continued growth in rural America and one of the most proven ways of ensuring the wisest use of resources, both human and financial.

As outlined in the initiative, USDA has mandated that the extension service place an additional priority emphasis on rural revitalization and education. As one of the Department's largest agencies with direct public contact, the extension service has continued its work with State officials, county officials, community leaders, and colleges and universities to further develop education and training programs best suited to individual community needs.

The extension service is also continuing to build on local institutions and working to expand the interest and participation within individual communities as well. Current estimates within the extension service indicate that over 900 man-years are delivering programs to 3,500 rural governments and are assisting over 2.1 million rural officials.

The cooperative extension service functions in all 50 States, the 16 1890 land grant institutions, the five territories, and the District of Columbia, and at Tuskegee University. Working in conjunction with USDA are the four regional rural development centers. They are stimulating research, coordinating conferences, and executing educational programs in rural America.

Serving the entire United States, the centers are active players in rural development. They work closely with the States, the university sector, the private sector, and the Federal Government's many agencies with a development mission.

Extension service and cooperative State research service are major players in contributing to this. The Northeast center is at Penn State. Iowa State has the North Central region facility. For the South, it is Mississippi State, and for the West Oregon State.

A new State rural development center was recently established in North Dakota. Each center is administered by a joint agreement between USDA and the host institution, operating for the extension service and experiment station in the respective regions.

The need for attention to the regional aspects of rural development was recognized and authorized in Title V of the Rural Development Act of 1972. Primary support comes from the two USDA agencies.

However, other Federal and State agencies, private foundations, and public interests contribute support. The general purpose of the regional rural development centers is to encourage and conduct programs to improve the social and economic wellbeing of nonmetropolitan communities in their respective regions.

Program efforts have emphasized problems of concern to local public decisionmakers and complemented efforts already under way in the region. Projects have focused on rural community research and training programs for professionals involved in rural development.

Program development assistance, publications, conference and interest networks have been the primary mechanisms used. The rural development centers continue to improve rural institutions and the quality of rural community life, while shifting to greater local responsibility for the individual citizens' wellbeing, help rural economies to deal with a redirected economic market and the impact of international trade and foreign competition for jobs, and lastly, make accessible and affordable for institutions the amount and quality of information for public decisionmaking that will be necessary to adjust to the changing needs of rural communities.

Point two, rural enterprise teams. Point two of our strategy establishes rural enterprise teams. The rural enterprise team is a vehicle by which rural areas can receive the technical assistance they need.

The teams are comprised of a unique mix—USDA specialists who live and work in those areas, as well as university specialists who work daily with rural citizens and members of State government, as well as local.

The private sector, such as economic development corporations and financial institutions, plays a key role as well. As you can see, this blend of talent, across the board experience, and commitment to rural development lends itself to those communities requesting their assistance. Together, the group provides technical assistance, guidance, and develops plans tailor-made for that particular community.

The needs vary greatly from State to State, indeed from county to county. Local people are in the obvious position of knowing exactly what they require to meet their specific needs and wants.

Currently there are well over 500 rural enterprise team members in 46 States, consisting of a mix of State, local, and Federal individuals. Their impact is being felt and their ongoing activities in promoting rural economic development is evident in accumulating success stories.

In many States, rural enterprise teams have selected a particular county or city to focus rural revitalization efforts. Together, the team collectively devotes its energies to develop alternatives and solutions for a rural area that is in need of special attention and assistance.

Rural enterprise teams are as diverse as the communities and people they serve. For example, in Iowa the teams are organized geographically, in Arkansas they are by specific concerns, namely environment, pollution, and business economic development, rural development and leadership, and alternative crops and enterprises.

Missouri has its rural enterprise team organized by regions and districts of the State. The list of creativity goes on and on.

But the point, the important point, is that it is fine-tuned to local concerns and needs. The enterprise teams are prepared to offer ideas and information to communities seeking assistance.

In many cases, the teams help develop action plans for long-range improvements and serve as a vital link to State, local, and Federal officials and programs. The enterprise teams rely on the State food and agriculture councils to maintain a close tie directly to each individual State. In turn, the food and agriculture councils report regularly to me to ensure that USDA is kept up to date on progress.

Mr. Chairman, here is a point that I want to stress. The enterprise teams do not do the work for the rural community. Rather, each enterprise team functions as a resource directory by providing information on available programs and practical guidance and suggestions for meeting particular needs and wants of small towns.

Indeed, much of the success to date has been due in large part to the special relationship that the enterprise teams have with the leaders of those local communities seeking assistance.

Point three, the rural information center. USDA's rural information center is designed to provide information and referral services for local Government officials working to maintain the vitality of America's rural areas. Target users are public leaders involved with rural development programs.

This group is defined as being composed of elected and appointed officials, community development officials, including academic and nonprofit providers of rural information programs, and volunteers, volunteer leaders of local citizen organizations.

The information center is a joint project of the extension service and the national agricultural library. The information center combines the technical subject matter expertise of extension's nationwide educational network with the resources of the largest agricultural library in the free world.

The information center staff draws upon the library's resources for books, journals, program manuals, and audiovisuals, and accesses on-line data bases to provide information and retrieve material.

Extension provides the information center with program expertise, as well as rural outreach contact at information centers. The information services available through the information center are easily accessible to local leaders and Government officials through extension network and county and State offices.

And the telephone computer network links local officials in the extension offices with RIC headquarters in Beltsville, MD. The information center can provide specific information, if you will, to a community that might have a particular problem, such as toxic wastes, solid waste disposal, deteriorating infrastructure, and in a matter of a day or so get a hard copy to the community, giving them the list of communities in the country that had that problem, how they solved that problem, the resources they used to solve that problem, and where they got those resources.

We think that that can be of very major importance to rural America.

Point four, the research on economic development. Currently the Department's economic research service and agricultural service are two of the principal agencies devoting resources to and maintaining focus on economic development.

The economic research service has long been recognized as the leader in quantifying data in the rural sector, and wherever possible the Secretary has mandated that that be conducted in the rural areas whenever possible.

Senator BAUCUS. Excuse me. How much more time?

Mr. VAUTOUR. About 4 minutes.

Senator BAUCUS. Could you limit it as much as possible?

Mr. VAUTOUR. I have one more point to make and then I will leave the rest for the record.

Point five is the redevelopment and redesign of the business-industry loan program of the Farmers Home Administration. In 1986, for instance, we had $96 million available. We used $56 million and generated 2,000 jobs.

In 1987, we used all of the $96 million, generated 7,000 jobs. And in 1988, we are going to use all of that and if our estimates are correct generate somewhere in the order of 10,000 to 11,000 jobs.

The point being that we are trying to target those funds to smaller and smaller loans in smaller communities and generating more jobs per dollar.

And the last point is one that I think is probably the most important, and that is the total dedication of the Secretary, the Deputy Secretary, and the Under Secretary to the accomplishment and their dedication to rural development.

And I will leave the balance of my statement for the record, Mr. Chairman. And if you have any questions at this point, I would be happy to try to answer them.

[The prepared statement of Mr. Vautour follows:]

TESTIMONY OF ROLAND R. VAUTOUR
UNDER SECRETARY
FOR SMALL COMMUNITY AND RURAL DEVELOPMENT
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING
SENATE SMALL BUSINESS COMMITTEE
JULY 13, 1988

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I APPRECIATE THIS OPPORTUNITY TO BE WITH YOU TODAY TO DISCUSS A TOPIC OF IMPORTANCE TO YOU AND ALL OF US COMMITTED TO RURAL AMERICA AND ITS PEOPLE.

THE COMMITMENT TO RURAL AMERICA AND ITS PEOPLE CAN TRACE ITS ROOTS BACK TO THE FOUNDING OF THE U.S. DEPARTMENT OF AGRICULTURE. LIKEWISE, RURAL DEVELOPMENT HAS BEEN A PRIMARY FOCUS AT USDA FOR SOME TIME. IN FACT, RURAL DEVELOPMENT CAN TRACE ITS BEGINNINGS BACK TO 1955, WHEN USDA LAUNCHED A COMPREHENSIVE RURAL DEVELOPMENT PROGRAM FOR THE FIRST TIME.

TO REINFORCE THAT BOND AND TO BRING TO THE FOREFRONT JUST HOW COMMITTED WE IN THE DEPARTMENT AND THE ADMINISTRATION ARE, LAST YEAR WE UNVEILED A SIX-POINT RURAL REGENERATION INITIATIVE THAT DETAILED OUR STRATEGY TO CONTINUE REBUILDING, REVITALIZING AND RECHARGING RURAL AMERICA. IT IS A STRATEGY THAT I BELIEVE IN WHOLEHEARTEDLY AND ONE THAT I AM VERY ENTHUSIASTIC ABOUT.

THE PURPOSE OR THRUST OF USDA'S SIX-POINT INITIATIVE CAN BEST BE DESCRIBED BY WORDS LIKE: REDIRECT, TARGET, FOCUS, HIGHLIGHT, COMMIT AND REGENERATE. PAIRED WITH THE TOOLS AND RESOURCES OF USDA, RURAL AMERICA IS ON THE MOVE.

BEFORE I BEGIN OUTLINING EACH OF THE SIX POINTS, I WOULD LIKE TO SAY THAT SUCCESSFUL RURAL DEVELOPMENT ACTIVITIES AND POLICIES MANDATE COOPERATION, COMMUNICATION AND DEDICATION BY MANY PLAYERS HERE IN WASHINGTON AND IN EACH OF THE STATES. WHILE USDA HAS BEEN CHARGED TO LEAD THE WAY IN REVITALIZING RURAL AMERICA, IT IS A TEAM EFFORT THAT INCLUDES PLAYERS SUCH AS: THE DEPARTMENTS OF EDUCATION, LABOR, HEALTH AND HUMAN SERVICES, DEFENSE, HOUSING AND URBAN DEVELOPMENT, INTERIOR AND TRANSPORTATION. OTHER PLAYERS INCLUDE: THE SMALL BUSINESS ADMINISTRATION, THE ENVIRONMENTAL PROTECTION AGENCY, AND A HOST OF COUNCILS AND COMMISSIONS.

IN AN EFFORT TO BETTER ADDRESS THE NEEDS OF RURAL AMERICA, PRESIDENT REAGAN ESTABLISHED THE TASK FORCE ON RURAL COMMUNITIES, CONSISTING OF 20 HIGH-RANKING GOVERNMENT OFFICIALS.

THE TASK FORCE CONSIDERED MANY CONCEPTS IN ITS SEARCH FOR A PROPER FEDERAL RESPONSE TO RURAL AMERICA'S NEEDS WHILE MAKING A REPORT TO THE ECONOMIC POLICY CABINET COUNCIL AT THE WHITE HOUSE.

AFTER CONSIDERING THE TASK FORCE'S SUGGESTIONS, THE CABINET COUNCIL RESPONDED WITH THE FOLLOWING PLAN:

* THE TASK FORCE ON RURAL COMMUNITIES WOULD BECOME A CONTINUING WORKING GROUP OF THE ECONOMIC POLICY CABINET COUNCIL.

* THE CHAIRMANSHIP OF THE TASK FORCE WOULD BE VESTED IN THE SECRETARY OF AGRICULTURE. SECRETARY LYNG HAS ASKED DEPUTY SECRETARY MYERS TO SERVE AS THE DAY-TO-DAY WORKING HEAD OF THE TASK FORCE.

THE TASK FORCE HAS BEEN GIVEN THE MISSION TO:

1. SEEK BETTER COORDINATION OF ALL FEDERAL RURAL DEVELOPMENT PROGRAMS;

2. HOLD MEETINGS AND HEARINGS ON THE EFFECTS OF FEDERAL PROGRAMS AND REGULATIONS ON RURAL COMMUNITIES; AND

3. DEVELOP FURTHER POLICY PROPOSALS FOR CONSIDERATION BY THE ECONOMIC POLICY COUNCIL.

IN ADDITION, EXECUTIVE BRANCH AGENCIES HAVING RURAL DEVELOPMENT PROGRAMS HAVE BEEN CHARGED WITH FORMULATING INITIATIVES TO ADDRESS THE PROBLEMS FACING RURAL AMERICA.

WITH THIS VAST NETWORK IN PLACE, I WILL BEGIN HIGHLIGHTING OUR SIX-POINT STRATEGY. A KEY REASON WHY RURAL REGENERATION IS HAPPENING IS BECAUSE OF THE COOPERATIVE SPIRIT BETWEEN WASHINGTON'S FEDERAL AGENCIES AND THE STATE AND LOCAL LEADERS. THE EMPHASIS IS ON THE DEVELOPMENT OF LOCAL LEADERSHIP-- LEADERSHIP THAT IS AWARE OF WHAT IS AVAILABLE AND HOW TO ALLOCATE THOSE RESOURCES AND PROGRAMS THE BEST WAY THEY SEE FIT.

POINT ONE: INCREASED ROLE FOR EXTENSION SERVICE - LEADERSHIP DEVELOPMENT

LEADERSHIP IS ONE OF THE KEY ELEMENTS THAT WILL LEAD TO A REVITALIZED RURAL AMERICA.

THE DEPARTMENT OF AGRICULTURE HAS IDENTIFIED THE DEVELOPMENT OF LEADERSHIP AT THE LOCAL LEVEL AS ONE OF ITS HIGHEST PRIORITIES. INDEED, DEVELOPING AND ENCOURAGING LOCAL LEADERSHIP PLAYS A CRITICAL ROLE IN THE SUCCESS OF OUR RURAL COMMUNITIES.

LOCAL LEADERS ARE IN THE LOGICAL POSITION OF BEING ABLE TO IDENTIFY THEIR UNIQUE NEEDS FOR REBUILDING AND EXPANDING THEIR COMMUNITY'S ECONOMIC BASE. USDA BELIEVES THAT DEVELOPING AND NURTURING RURAL LEADERS IS ONE OF THE SUREST WAYS TO ENCOURAGE CONTINUED GROWTH IN RURAL AMERICA AND ONE OF THE MOST PROVEN WAYS OF INSURING THE WISEST USE OF RESOURCES, BOTH HUMAN AND FINANCIAL.

AS OUTLINED IN THE INITIATIVE, USDA HAS MANDATED THAT THE EXTENSION SERVICE PLACE AN ADDITIONAL PRIORITY EMPHASIS ON RURAL REVITALIZATION AND EDUCATION. AS ONE OF THE DEPARTMENT'S LARGEST AGENCIES WITH DIRECT PUBLIC CONTACT, EXTENSION SERVICE HAS CONTINUED ITS WORK WITH STATE OFFICIALS, COUNTY OFFICIALS, COMMUNITY LEADERS, AND COLLEGES AND UNIVERSITIES TO FURTHER DEVELOP EDUCATION AND TRAINING PROGRAMS BEST SUITED TO INDIVIDUAL COMMUNITY NEEDS. EXTENSION SERVICE IS ALSO CONTINUING TO BUILD ON LOCAL INSTITUTIONS AND WORKING TO EXPAND THE INTERESTS AND PARTICIPATION WITHIN INDIVIDUAL COMMUNITIES AS WELL.

CURRENT ESTIMATES WITHIN EXTENSION SERVICE INDICATE THAT OVER 900 FTE'S ARE DELIVERING PROGRAMS TO 3,500 RURAL GOVERNMENTS AND ARE ASSISTING OVER 2.1 MILLION RURAL OFFICIALS.

THE COOPERATIVE EXTENSION SYSTEM FUNCTIONS IN ALL 50 STATES, THE SIXTEEN 1890 LAND GRANT INSTITUTIONS, THE 5 TERRITORIES, THE DISTRICT OF COLUMBIA, AND AT TUSKEGEE UNIVERSITY.

WORKING IN CONJUNCTION WITH USDA ARE THE FOUR REGIONAL RURAL DEVELOPMENT CENTERS. THEY ARE STIMULATING RESEARCH, COORDINATING CONFERENCES AND EXECUTING EDUCATION PROGRAMS IN RURAL AMERICA. SERVING THE ENTIRE UNITED STATES, THE CENTERS ARE ACTIVE PLAYERS IN RURAL ECONOMIC DEVELOPMENT. THEY WORK CLOSELY WITH THE STATES, THE UNIVERSITY SECTOR, THE PRIVATE SECTOR AND THE FEDERAL GOVERNMENT'S MANY AGENCIES WITH A RURAL DEVELOPMENT MISSION. EXTENSION SERVICE AND COOPERATIVE STATE RESEARCH SERVICE ARE MAJOR PLAYERS AND CONTRIBUTORS.

THE NORTHEAST CENTER IS AT PENN STATE; IOWA STATE HAS THE NORTH CENTRAL REGION FACILITY; FOR THE SOUTH, IT IS MISSISSIPPI STATE; AND FOR THE WEST, OREGON STATE. A NEW STATE RURAL DEVELOPMENT CENTER WAS RECENTLY ESTABLISHED IN NORTH DAKOTA. EACH CENTER IS ADMINISTERED BY A JOINT AGREEMENT BETWEEN USDA AND THE HOST INSTITUTION OPERATING FOR THE EXTENSION SERVICE AND EXPERIMENT STATION IN THE RESPECTIVE REGIONS.

THE NEED FOR ATTENTION TO THE REGIONAL ASPECTS OF RURAL DEVELOPMENT WAS RECOGNIZED AND AUTHORIZED IN TITLE V OF THE RURAL DEVELOPMENT ACT OF 1972. PRIMARY SUPPORT COMES FROM THE TWO USDA AGENCIES. HOWEVER, OTHER FEDERAL AND STATE AGENCIES, PRIVATE FOUNDATIONS, AND PUBLIC INTERESTS CONTRIBUTE SUPPORT.

THE GENERAL PURPOSE OF THE REGIONAL RURAL DEVELOPMENT CENTERS IS TO ENCOURAGE AND CONDUCT PROGRAMS TO IMPROVE THE SOCIAL AND ECONOMIC WELL-BEING OF NONMETROPOLITAN COMMUNITIES IN THEIR RESPECTIVE REGIONS. PROGRAM EFFORTS HAVE EMPHASIZED PROBLEMS OF CONCERN TO LOCAL, PUBLIC DECISIONMAKERS AND COMPLEMENTED EFFORTS ALREADY UNDERWAY IN THE REGION. PROJECTS HAVE FOCUSED ON RURAL COMMUNITY RESEARCH AND TRAINING PROGRAMS FOR PROFESSIONALS INVOLVED IN RURAL DEVELOPMENT. PROGRAM DEVELOPMENT ASSISTANCE, PUBLICATIONS, CONFERENCES AND INTEREST NETWORKS HAVE BEEN THE PRIMARY MECHANISMS USED.

THE REGIONAL RURAL DEVELOPMENT CENTERS CAN:

* CONTINUE TO IMPROVE RURAL INSTITUTIONS AND THE QUALITY OF RURAL COMMUNITY LIFE WHILE SHIFTING TO GREATER LOCAL RESPONSIBILITY FOR THE INDIVIDUAL CITIZEN'S WELL-BEING;

* HELP RURAL ECONOMIES TO DEAL WITH A REDIRECTED ECONOMIC MARKET AND THE IMPACTS OF INTERNATIONAL TRADE AND FOREIGN COMPETITION FOR JOBS; AND LASTLY,

* MAKE ACCESSIBLE AND AFFORDABLE TO INSTITUTIONS THE AMOUNT AND QUALITY OF INFORMATION FOR PUBLIC DECISION-MAKING THAT WILL BE NECESSARY TO ADJUST TO THE CHANGING NEEDS OF RURAL COMMUNITIES.

POINT TWO: RURAL ENTERPRISE TEAMS

POINT TWO OF OUR STRATEGY ESTABLISHES RURAL ENTERPRISE TEAMS. THE RURAL ENTERPRISE TEAM IS A VEHICLE BY WHICH RURAL AREAS CAN RECEIVE THE TECHNICAL ASSISTANCE THEY NEED. THE TEAMS ARE COMPRISED OF A UNIQUE MIX -- USDA SPECIALISTS WHO LIVE AND WORK IN THOSE RURAL AREAS, AS WELL AS UNIVERSITY SPECIALISTS WHO WORK DAILY WITH RURAL CITIZENS AND MEMBERS OF THE STATE GOVERNMENT. THE PRIVATE SECTOR, SUCH AS ECONOMIC DEVELOPMENT CORPORATIONS AND FINANCIAL INSTITUTIONS, PLAYS A KEY ROLE, TOO. AS YOU CAN SEE, THIS BLEND OF TALENT, ACROSS-THE-BOARD EXPERIENCE AND COMMITMENT TO RURAL DEVELOPMENT, LENDS ITSELF TO THOSE COMMUNITIES REQUESTING THEIR ASSISTANCE.

TOGETHER, THE GROUP PROVIDES TECHNICAL ASSISTANCE, GUIDANCE AND DEVELOPS PLANS TAILOR-MADE FOR THAT PARTICULAR COMMUNITY. THE NEEDS VARY GREATLY FROM STATE TO STATE, INDEED FROM COUNTY TO COUNTY. LOCAL PEOPLE ARE IN THE OBVIOUS POSITION OF KNOWING WHAT EXACTLY THEY REQUIRE TO MEET THEIR SPECIFIC NEEDS AND WANTS.

CURRENTLY, THERE ARE WELL OVER 500 RURAL ENTERPRISE TEAM MEMBERS IN 46 STATES CONSISTING OF A MIX OF STATE, LOCAL, AND FEDERAL INDIVIDUALS. THEIR IMPACT IS BEING FELT AND THEIR ONGOING ACTIVITIES IN PROMOTING RURAL ECONOMIC DEVELOPMENT IS EVIDENT IN ACCUMULATING SUCCESS STORIES.

IN MANY STATES, RURAL ENTERPRISE TEAM MEMBERS HAVE SELECTED A PARTICULAR COUNTY OR CITY TO FOCUS RURAL REVITALIZATION EFFORTS. TOGETHER, THE TEAM COLLECTIVELY DEVOTES ITS ENERGIES TO DEVELOP ALTERNATIVES AND SOLUTIONS FOR A RURAL AREA THAT IS IN NEED OF SPECIAL ATTENTION AND ASSISTANCE.

RURAL ENTERPRISE TEAMS ARE AS DIVERSE AS THE COMMUNITIES AND PEOPLE THEY SERVE. FOR EXAMPLE, IN IOWA THE TEAMS ARE ORGANIZED GEOGRAPHICALLY. IN ARKANSAS THEY ARE BY SPECIFIC CONCERNS, NAMELY ENVIRONMENTAL POLLUTION; BUSINESS AND ECONOMIC DEVELOPMENT; RURAL DEVELOPMENT AND LEADERSHIP; AND ALTERNATIVE CROPS AND ENTERPRISES. MISSOURI HAS ITS RURAL ENTERPRISE TEAM ORGANIZED BY REGIONS AND DISTRICTS OF THE STATE. THE LIST AND

THE CREATIVITY GOES ON AND ON. THE IMPORTANT FACT IS THAT IT IS FINE-TUNED TO LOCAL CONCERNS.

THE RET'S ARE PREPARED TO OFFER IDEAS AND INFORMATION TO COMMUNITIES SEEKING ASSISTANCE. IN MANY CASES, THE TEAMS HELP DEVELOP ACTION PLANS FOR LONG-RANGE IMPROVEMENTS AND SERVE AS A VITAL LINK TO STATE, LOCAL AND FEDERAL OFFICIALS AND PROGRAMS.

RET'S RELY ON THE STATE FOOD AND AGRICULTURE COUNCIL (SFAC) TO MAINTAIN A CLOSE TIE DIRECTLY IN EACH INDIVIDUAL STATE. IN TURN, FACS REPORT REGULARLY TO ME TO INSURE THAT USDA IS KEPT UP-TO-DATE ON PROGRESS.

MR. CHAIRMAN, HERE IS A POINT I WANT TO STRESS. THE RET'S DO NOT DO THE WORK FOR THE RURAL COMMUNITY. RATHER, EACH RET FUNCTIONS AS A RESOURCE DIRECTORY BY PROVIDING INFORMATION ON AVAILABLE PROGRAMS AND PRACTICAL GUIDANCE AND SUGGESTIONS FOR MEETING PARTICULAR NEEDS AND WANTS OF SMALL TOWNS. INDEED, MUCH OF THE SUCCCESS TO DATE HAS BEEN DUE IN LARGE PART TO THE SPECIAL RELATIONSHIP THE RET HAS WITH THE LEADERS OF THOSE LOCAL COMMUNITIES SEEKING ASSISTANCE. BY WORKING TOGETHER AND DRAWING ON THE EXPERTISE OF THE TEAM'S COLLECTIVE MEMBERSHIP, LOCAL LEADERS ARE ABLE TO MOVE AHEAD AND MEET THE CHALLENGE OF REVITALIZING THEIR HOME TOWNS.

POINT THREE: RURAL INFORMATION CENTER

USDA'S RURAL INFORMATION CENTER (RIC) IS DESIGNED TO PROVIDE INFORMATION AND REFERRAL SERVICES TO LOCAL GOVERNMENT OFFICIALS WORKING TO MAINTAIN THE VITALITY OF AMERICA'S RURAL AREAS.

THE "TARGET USERS" ARE PUBLIC LEADERS INVOLVED WITH RURAL DEVELOPMENT PROGRAMS. THIS GROUP IS DEFINED AS BEING COMPOSED OF ELECTED AND APPOINTED OFFICIALS, COMMUNITY DEVELOPMENT PROFESSIONALS (INCLUDING ACADEMIC AND NONPROFIT PROVIDERS OF RURAL INFORMATION PROGRAMS), AND VOLUNTEER LEADERS OF LOCAL CITIZEN ORGANIZATIONS.

THE RIC IS A JOINT PROJECT OF THE EXTENSION SERVICE AND THE NATIONAL AGRICULTURAL LIBRARY. THE RIC COMBINES THE TECHNICAL, SUBJECT-MATTER EXPERTISE OF EXTENSION'S NATIONWIDE EDUCATIONAL NETWORK WITH THE RESOURCES OF THE LARGEST AGRICULTURAL LIBRARY IN THE FREE WORLD. RIC STAFF DRAW UPON THE LIBRARY'S RESOURCES (BOOKS, JOURNALS, PROGRAM MANUALS, AND AUDIOVISUAL MATERIALS) AND ACCCESS ON-LINE DATA BASES TO PROVIDE INFORMATION AND RETRIEVAL MATERIAL. EXTENSION PROVIDES THE RIC WITH PROGRAM EXPERTISE AS WELL AS RURAL OUTREACH CONTACTS AND DISTRIBUTION OF INFORMATION.

THE INFORMATION AND SERVICES AVAILABLE THROUGH THE RIC ARE EASILY ACCESSIBLE TO LOCAL LEADERS AND GOVERNMENT OFFICIALS THROUGH EXTENSION'S NETWORK OF COUNTY AND STATE OFFICES.

A TELEPHONE-COMPUTER NETWORK LINKS LOCAL OFFICIALS IN THE EXTENSION OFFICES WITH THE RIC HEADQUARTERS IN BELTSVILLE, MARYLAND.

THE RIC CAN SUPPLY RURAL REVITALIZATION INFORMATION ON SUBJECTS SUCH AS: HOW RURAL COMMUNITIES CAN MAINTAIN A COMPETITIVE, DIVERSIFIED RURAL ECONOMY; RURAL LOCAL GOVERNMENT SERVICES, FACILITIES AND THE ABILITY TO SUPPORT THEM; AND LOCAL LEADERSHIP EFFORTS TO DEAL WITH STRUCTURAL CHANGE.

TO DATE, CALLERS HAVE REQUESTED INFORMATION RANGING FROM WATER AND SEWER QUESTIONS TO POPULATION STATISTICS TO SPECIFIC QUESTIONS ON HOW BEST TO DEVELOP TOURISM AS AN ALTERNATIVE INDUSTRY.

THE RIC IS UP AND RUNNING AND IT IS BEING EXPANDED AND FINE-TUNED TO PROVIDE EVEN GREATER SERVICE TO ITS USERS. IT IS A CLEARINGHOUSE THAT PROVIDES LOCAL OFFICIALS WITH HANDS-ON INFORMATION AND SERVES AS A ONE-STOP REFERRAL SERVICE. AND THAT, I BELIEVE, IS IMPORTANT, ESPECIALLY WHEN YOU ARE IN YORKVILLE, TENNESSEE OR STORM LAKE, IOWA. AS A MATTER OF FACT, MORE AND MORE CONGRESSIONAL OFFICES ARE UTILIZING THE RIC'S VAST CAPABILITIES.

ONE IMPORTANT ASPECT THAT I WOULD LIKE TO POINT OUT, MR. CHAIRMAN, IS THAT THROUGH THE EFFORTS OF THE WHITE HOUSE TASK FORCE ON RURAL COMMUNITIES, THE RIC IS IN THE PROCESS OF LINKING DATA BASES WITH OTHER DEPARTMENTS AND AGENCIES OF THE FEDERAL GOVERNMENT. I AM SURE YOU AGREE WTIH ME THAT A SYSTEM THAT CAN RETRIEVE INFORMATION ON A BROAD RANGE OF SUBJECTS AND SERVICES OF THE FEDERAL GOVERNMENT WILL BE MOST USEFUL TO RURAL AMERICA.

POINT FOUR: RESEARCH ON RURAL ECONOMIC DEVELOPMENT

CURRENTLY, USDA'S ECONOMIC RESEARCH SERVICE AND THE AGRICULTURAL RESEARCH SERVICE ARE TWO OF THE PRINCIPAL AGENCIES DEVOTING RESOURCES TO AND MAINTAINING A FOCUS ON RURAL ECONOMIC DEVELOPMENT. ERS HAS LONG BEEN RECOGNIZED AS A LEADER IN QUANTIFYING DATA IN THE RURAL SECTOR. AS A MATTER FACT, ONE OF THEIR MAJOR PUBLICATIONS, "RURAL ECONOMIC DEVELOPMENT FOR THE 1980'S," IS AN EXCELLENT EXAMPLE OF A COMPREHENSIVE STUDY OF RURAL AMERICA AND ITS CHANGING COUNTRYSIDE AND PEOPLE. THE ARS IN TURN IS CONTINUING ITS RESEARCH ON ALTERNATIVE CROPS AND NEW USES FOR TRADITIONAL COMMODITIES. TOGETHER, THESE TWO AGENCIES CONTINUE TO WORK WITH ALL OF USDA IN MEETING THE MANDATE OF OUR RURAL INITIATIVE.

POINT FIVE: BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

THE FIFTH POINT OF OUR STRATEGY IS DESIGNED TO HELP MEET THE NEED OF FINANCING THOSE COMMUNITY FACILITIES AND INFRASTRUCTURE PROJECTS IN RURAL AMERICA. TO DO SO, THE SECRETARY HAS INSTRUCTED THE FARMERS HOME ADMINISTRATION TO RE-DIRECT ITS BUSINESS AND INDUSTRY (B&I) LOAN PROGRAM FUNDS. IN DOING SO, FUNDS WILL BE USED TO CREATE EVEN MORE JOBS AND GIVE PREFERENCE TO THOSE COMMUNITIES DEMONSTRATING THE GREATEST NEED. MR. CHAIRMAN, THE PROGRAM IS WORKING.

TO ILLUSTRATE, IN FY88, $95.7 MILLION WILL BE AVAILABLE. IN LOOKING BACK OVER THE B&I LOAN PROGRAM IN 1986, WITH $56 MILLION, SOME 2000 JOBS RESULTED. IN 1987, SOME 7000 JOBS RESULTED FROM $95.7 MILLION. WE PROJECT THAT IN 1988 WITH THE SAME FUNDING, 10,000 JOBS WILL BE CREATED OR SAVED. WE THINK THIS IS A VERY POSITIVE TREND AND BELIEVE THAT THIS TARGETING AT SPECIAL COMMUNITIES IS MAKING A DIFFERENCE IN RURAL AREAS. OUR FUNDING LEVEL REMAINS THE SAME, YET OUR NUMBER OF JOBS CREATED AND SAVED INCREASES DRAMATICALLY, AND IN THE AREAS OF GREATEST NEED. FEDERAL COSTS ARE LIMITED TO ADMINISTRATIVE EXPENSES AND ANY FUTURE LOSSES, WHICH SHOULD BE MINIMAL.

POINT SIX: DIRECTION AND COORDINATION BY THE DEPUTY SECRETARY

AS A WAY TO ENSURE THAT THIS RURAL REBULDING AND REVITALIZATION EFFORT IS GIVEN THE PRIORITY THAT IT DESERVES, ITS OVERALL DIRECTION AND COORDINATION HAS BEEN PLACED IN THE DEPUTY SECRETARY'S OFFICE. BECAUSE OF THIS DESIGNATION, THE COMMITMENT OF THE DEPARTMENT'S RESOURCES, BOTH PEOPLE AND FINANCIAL, HAVE BEEN A KEY REASON WHY THE INITIATIVE HAS ENJOYED SUCCESS. TO BE SURE, THERE IS STILL MUCH TO BE ACCOMPLISHED. HOWEVER, THE CHALLENGES FACING AMERICA'S RURAL POPULATION REMAIN A PRIMARY FOCUS WTIHIN USDA. THAT COMMITMENT AND CHALLENGE IS UNYIELDING.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I HOPE THIS OVERVIEW HAS SERVED TO GIVE YOU A FEW EXAMPLES OF THE DEPARTMENT'S CONTINUING EFFORTS TO SERVE RURAL AMERICA. USDA STANDS READY AND COMMITTED TO OUR SMALL TOWNS AND COMMUNITIES. OUR PLEDGE TO CONTINUE SERVING A CHANGING AGRICULTURE AND ITS PEOPLE IS ONGOING. I BELIEVE WE ARE MAKING PROGRESS AND LOOK FORWARD AS WE CONTINUE TO FORGE AHEAD WITH THIS STRATEGY.

CLEARLY, THE NEEDS OF RURAL AMERICANS AND THEIR COMMUNITIES ARE UNIQUE. CERTAINLY, THROUGH COORDINATION AND COMMUNICATION OF OUR MANY AGENCIES OF THE USDA, AS WELL AS OUR SISTER DEPARTMENTS, WILL ALLOW US TO CONTINUE TO BUILD ON OUR RECORD OF SUCCESS.

FEDERAL POLICY AND ATTENTION TO RURAL AMERICA HAS LONG BEEN TIED TO FARM POLICY. TRADITIONALLY, THE U.S. DEPARTMENT OF AGRICULTURE HAS PLAYED THE DOMINANT ROLE IN FEDERAL FARM AND RURAL POLICY. THIS WILL NOT CHANGE. HOWEVER, BECAUSE THE FACE OF RURAL AMERICA HAS CHANGED, SO HAS THE MEANS TO SERVE ITS PEOPLE. THIS CHANGE HAS DEMANDED THAT THE MANY AGENCIES AND DEAPRTMENTS OF THE FEDERAL GOVERNMENT COME TOGETHER AND ASSESS THEIR PROGRAMS AND DELIVERY SYSTEMS. ACCORDINGLY, A CONCLUSION HAS BEEN MADE. THAT CONCLUSION, MR. CHAIRMAN, IS THAT RURAL DEVELOPMENT DOES NOT MEAN AGRICULTURAL DEVELOPMENT EXCLUSIVELY. RATHER, RURAL DEVELOPMENT ENCOMPASSES A VARIETY OF PUBLIC POLICY ACTIONS SUCH AS EDUCATION, PUBLIC HEALTH, TRANSPORTATION, BANKING AND LOCAL GOVERNMENT SOLVENCY. AND BECAUSE OF THE DIVERSITY OF RURAL AMERICA, COORDINATION AND COMMUNICATION IS ESSENTIAL.

WHILE IT IS TRUE THAT THERE ARE MANY PROGRAMS IN PLACE FOR RURAL AMERICANS, THE FOCUS HAS NARROWED AND THE COMMITMENT HAS BEEN RENEWED AND STRENGTHENED. THERE IS A REAL FOCUS TO TARGET SERVICES AND RESOURCES TO RURAL AMERICA. MR. CHAIRMAN, I BELIEVE THAT USDA'S SIX-POINT RURAL REGENERATION INITIATIVE IS TESTIMONY TO THIS ADMINISTRATION'S CONCERN AND BELIEF IN RURAL AMERICA.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, RURAL AMERICA DESERVES OUR BEST IDEAS AND OUR COLLECTIVE EFFORTS. WE THINK THE SIX-POINT RURAL REGENERATION INITIATIVE IS THAT TOOL. IT IS IN PLACE AND IT IS WORKING.

CHAIRMAN BAUCUS, THANK YOU FOR THIS OPPORTUNITY TO DISCUSS RURAL DEVELOPMENT AND THE U.S. DEPARTMENT OF AGRICULTURE. WE HAVE QUITE AN INTEREST IN RURAL DEVELOPMENT AND ONE THAT WE INTEND TO KEEP TO THE FOREFRONT. THE DEPARTMENT IS DEDICATED TO SERVING ALL OF AMERICA. USDA BELIEVES IN ITS MISSION AND WILL CONTINUE LIVING UP TO THE IDEALS THAT BEGAN 126 YEARS AGO.

RURAL AMERICA WILL CONTINUE TO BE A MAJOR CONCERN FOR NOT ONLY USDA, BUT EVERY AGENCY AND DEPARTMENT WITHIN THE FEDERAL GOVERNMENT. THIS ADMINISTRATION BELIEVES IN THE RESOURCES OF RURAL AMERICA -- ITS PEOPLE, ITS DRIVE TO ACHIEVE AND ITS WILLINGNESS TO ADJUST TO A CHANGING RURAL AMERICA. WE ARE A PART OF THAT CHANGE AND WILL CONTINUE TO GUIDE RURAL AMERICA THROUGH THIS TRANSITION.

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY. AGAIN, LET ME EMPHASIZE MY GRATITUDE FOR THIS CHANCE TO HIGHLIGHT OUR INITIATIVES AND PROGRESS AT THE U.S. DEPARTMENT OF AGRICULTURE. AS ALWAYS, WE ARE ANXIOUS TO WORK WITH YOU AND SHARE A COMMON BELIEF IN AND HOPE FOR RURAL AMERICA.

THANK YOU, AND I WOULD BE PLEASED TO ANSWER ANY QUESTIONS.

Senator **Baucus**. Thank you, Secretary.

And now we are honored to have with us the Administrator of the Small Business Administration, a former colleague of ours, someone who was very close to all of us here in the Senate for many, many years and who has very high admiration from all of us as a good Administrator and also a very decent person, Mr. Abdnor.

STATEMENT OF HON. JAMES ABDNOR, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. **Abdnor**. Thank you, Mr. Chairman. I appreciate those kind words and I hope I can live up to them.

Needless to say, I do miss being around all my former colleagues. They are a great group of people to work with.

I find my present job very challenging, very interesting. Sometimes I wish I could bring you fellows down there for a week at a time to see some of the things we do.

Senator **Baucus**. It would probably do us a lot of good.

Mr. **Abdnor**. I was as pleased as could be, Mr. Chairman, by your invitation and what you are doing, because you say these hearings are held with an eye toward realistically identifying prospects for economic development in rural America.

Well, let me tell you, it is about high time we do that. You are right, I have great interest in this. You may remember in the 99th Session I was on the Joint Economic Committee. I was Vice Chairman and had been Chairman of the Committee on Agriculture and Transportation, and was also on Trade, Productivity, and Economic Growth.

In the first year of that Congress, I held hearings on farm policy. We called it "Toward the next generation of farm policy."

The second year, I chose the subject, "How can we revitalize rural America?" I know I have a lot of books up here, but let me tell you, this is the testimony we took. We think we probably spent as much time on this as anyone you could find.

We had witnesses from all over, out in the States and sometimes from Washington itself. We heard from everyone you could think of, the mayors and the county officials, the State officials. We had physicians, we had physician attendants in, and educators, and we had economists. We had them all.

We even had the press. And I think we learned some interesting things. But really, I have to say I don't know if we got many solutions. And that is one thing I have been interested in, coming up with solutions. Pretty soon you have to have some solutions.

And I think it is particularly interesting. I know you picked some great witnesses, because three of your witnesses appeared in front of my Committee. And one of these gentlemen, Mr. Pulver, was sitting in on the roundtable that I am going to tell you about here in a minute.

I would like to commend you on your charts up there. I think it tells the story. You may remember when we had that big fight on the billion dollar jobs bill. They were going to leave some of us clear out of it, but we got that thing reconsidered because they did not take into consideration underemployment.

In those days, as you can remember, up in Montana and South Dakota we both had people who were going to work every day, who were underemployed. And that was not showing up because these folks were really employed.

Your chart on income shows that, I think, very clearly, because that has been taking place. So it is time that we really get into this and start doing something about it. And I would ask that my entire statement be made a part of the record. I tried to cut this thing down, but I have so many things I want to tell you I do not know where to start.

But as you know, my interest is in this, and I lived in a small town all my life. I am probably the only fellow that worked in the Senate that still lives in the same house he was born in. It was remodeled a couple of times. I still have it there. I was back there for the 4th of July.

The two main points I really want to make here that we have learned in all of our study: First, although farming is very important—and I mean that. I am a farmer—I was a farmer until I came down here. Most new jobs in the future, we have to recognize, are going to be found off of the farm in those rural counties.

In rural America, 94 percent of all job growth comes from small business.

Second, none of us can improve the economic vitality in rural America by ourselves. And I cannot repeat that too many times. We cannot do it by ourselves, not any one agency or even the State. We have got to work together. That is the thing we have been working on all the way through.

The Federal agencies have got to work together. The Federal and State have got to work together, and Government and private sector.

We have used private sector extensively. I do not know if you were present when I was confirmed, but I made a statement at that time. I said the rural States have some of the most productive and capable workers available. They have advantages in space and resources waiting to be mobilized.

My statement suggested at that time if we encourage the development of small business in rural America we minimize the negative environmental, ecological, and social impacts on urban institutions and services. I think my statement is as right today as the day that I made it.

One of the first things I did was to say rural development is going to be one of our big initiatives. We did not get any increase in the budget, but we took other people and, under the leadership of Stan Parrish behind me—he took this over—we think we have come a long way.

I just want to tell you what we have been doing. Every program right now we have in the SBA is a rural economic development program if they want to use it that way. It is available to everyone, but it certainly can be used by rural America.

Access is the key to successful rural economic development. Now, that access is the theme to our initiative. We had 10 big regional meetings around the country. We had hundreds of suggestions from the people who attended, and from that we based the foundation of our program.

And I think it is very important. The access stands for "Assisting Committed Communities With Effective Solutions For Success."

Now, we have tried to answer all of your questions, and they are good ones. But the answers are in more depth in our written statement, and I will not touch on all of them. But in there I think you will find we hit them all.

Small business development is our specialty, but let me tell you, there is no easy solution or cookie-cutter approach to this business. Each small business, each small community, must consider a wide range of strategies and create their own plan for rural economic development.

It is up to them. No program is any better than the people that use it. They have got to figure out what they need. We have to tell them what we have to help them.

In the last 6 months we have held hearings and roundtables with small businessowners, bankers, representatives of Federal agencies, State and local economic development professionals. All these groups helped us identify solutions to our rural economic problems.

And I want to say one thing: the Department of Agriculture has been very, very helpful to us. The Farmers Home Administration and the Extension Service have played a big part in this, too.

The Department of Commerce helped us with their International Trade Administration and their Economic Development Administration. The Department of Interior was helpful. The Department of Housing and Urban and Development, the Department of Labor, the Department of Transportation, the Federal Highway Administration.

We used the Appalachian Regional Commission, and you know how big that is, Mr. Chairman, and the Tennessee Valley Authority. They were all there at different roundtables helping us discuss these problems.

All together, we had over 1,500 people who took part in our roundtables and in a few special hearings. We brought together all of these groups working together, because that is the only way you are going to make it work.

Now, based on their suggestions in this book, we took all of their comments and said, what have we got to do to get economic development? Well, we boiled it down into eight categories, which I think pretty well cover it. And we have asked other people who attended.

First is access to capital for small business development. Someone has got to have that.

Second is access to training and advice for business owners, because we found that more businesses go under because of lack of management and knowledge than anything, and that is important.

Third is access to a workforce which is well educated and trained.

Access to information about Government programs. Do not think that is not important.

Access to adequate infrastructure. Senator Pressler said the infrastructure system is very important, and we agree.

Access to technology that competes globally.

Access to marketing plans and strategies for growth.

Access to leadership.

That pretty well covers everything we have from 10 meetings around the country.

Time permits me today to only talk about three, and I know you have got a lot to do. The three that SBA can most directly affect through existing programs and services are: Marketing, capital, training, and consultants. Those areas we can do something about.

We established new outreach and marketing goals for SBA this year to improve the responsiveness of our programs in rural areas. First, we called for State conferences. Each of our SBA district offices was asked to work with the top State officials to hold a rural economic development conference.

These were cooperative efforts between the SBA, the Governor, and the other State agencies—and I mean all State agencies, not just ours—and organizations which share our goal of increasing the number of jobs created by small business in rural areas.

And the Extension Service, again, has participated in many of them so far, and we are grateful.

Our conferences have been held so far in 19 States this year. We have selected the dates and places for 16 more and are finalizing plans in the other 15. And by the end of the year, we will have participated in at least one rural economic development conference in each of the 50 States and multiple conferences in many of the large ones.

Let me just give you one example. In Arkansas, we held our rural economic development conference on June 6, in Little Rock, with cooperation from over a dozen different State and local agencies and three private sector sponsors. Ten different workshops were offered during this day-long conference for small businessowners and local Government officials.

Senator Bumpers was the featured speaker at the luncheon. Over 300 people attended this meeting. This will be followed by four more specialized conferences around his State.

Individual counseling was also provided during the day by loan officers, by procurement specialists, by SCORE, and others at the conference booths. SCORE is our Senior Corps of Retired Executives. They do wonderful work voluntarily. So those were good.

Now, we have targeted communities. This year each of our SBA district offices will be working with State policymakers, again with the State and their leaders, in at least one community on a pilot basis. We are going to pick one community to start with and undertake special outreach efforts.

In Idaho, for example, we are working through the Idaho Department of Commerce, called "Gem Communities." In Illinois, we are working with the State Department of Commerce Community Affairs.

Through the SBA system, we have now selected 43 target communities in 10 States. An additional 26 communities are under consideration.

I want to tell you, I want to emphasize, we are not arbitrarily selecting communities. In every case the community of choice must request assistance from SBA or the State. We then work with the State and other Federal agencies to design special programs to meet that community's particular need.

A county in Minnesota was one of our first communities targeted in a cooperative pilot with the U.S. Department of Agriculture and State government officials. At a recent meeting six Federal agencies, three State agencies, county and city officials, a regional action committee, and the private industrial representatives were all there.

The county commissioners agreed to hire a rural development coordinator—now, that is really getting them going—and develop an industrial park. I think they have a strategy for success.

Second—I know I am taking too much time, but I have so much to tell you. I told you that down.

At SBA, the regular business loans and certified development companies are both part of our strategy to increase access to capital in rural areas. Nationally, the rural percentage of SBA lending activity is now slightly higher than the rural population. The rural population is about 26 percent by our definition of 50,000 or less. In fiscal year 1986, our national average was 25 percent, which we increased to almost 27 percent in 1987, and it is going to be at least that high this year or more. But averages do not really tell the whole story, Mr. Chairman. You have got to realize we are broken up into 10 regions in SBA.

Now, you take region 7. That is Kansas, Iowa, Missouri, and Nebraska. 40 percent of our financial assistance in region 7 is in nonmetropolitan areas. Last year if you go to region 8, which is our area, North and South Dakota, Wyoming, Montana, Utah, and Colorado, 60 percent of the loans went into the rural areas.

The more urbanized regions, like regions 2 and 3 in the East and 9 on the West Coast, all had rural averages under 15 percent. So you just cannot go by saying every State ought to have so much rural money in it.

Our strategy is to increase the availability of capital in rural areas.

The third thing I want to talk about quickly is our training and our consultation, because I said that is extremely important. The SBA management assistance and counseling programs form a part of our strategy to increase access to training and counseling for businessowners.

Let me give you a few examples. I am sure you have heard of the Small Business Institute. They are doing in-depth counseling through the colleges. They are doing work in Ohio, at the University of Cincinnati, and they are working with the South Carolina group, to create rural business incubators.

In Strawberry Point, IO, the SBI and SCORE have teamed up to help retail businesses increase their tourist trade. In Boise, the Service Corps of Retired Executives are holding seminars on how to create home town jobs.

In Nashville, TN, we are working with the Tennessee Valley Authority using a mobile small business assistance center. We have a trailerhouse we are converting, working with the Authority. And we plan a series of events in participating communities using this specially converted mobile home.

It has been our policy from the beginning to blend together all of our resources with those of our other organizations to accomplish what none of us could do alone. Now, before we announced our

Access 1988 initiative we sat down with the representatives from a number of Federal agencies, as well as the National Governors Association, to discuss our ideas and ask their help.

There is so much to be done in rural economic development, we needed the help and the involvement of others to make these programs work. And I just want them to know how much I appreciate it.

We have a number of cooperative efforts on rural development with other Federal agencies. In February the SBA——

Senator BAUCUS. I am going to have to ask you to summarize, Jim.

Mr. ABDNOR. We have all these programs, and the one thing I want to show you, we have taken everybody's program and put them into this book that is going to be published in about 3 more weeks. It is going to look like this, only three times bigger.

We did the same thing with international trade, listing all of the agencies, all of the departments, every program they have, with a brief synopsis of what it is under each one. Then in the back, I could take the State of Montana and list the 25 people we have here who are playing a part in some form or other in the national office, State office, or local in here.

And we are publishing this to go out. We call it a guide to Federal and State resources for rural development. I guess what I am saying is it is amazing how little the public really knows of all the programs that are available. We have over 700 programs in this book that they will be looking at for rural development.

And one of the things that we think Congress ought to do is maybe spend more time on the oversight of these and see how they are working together and what needs to be done to really make them a good and effective organization.

You can put programs galore in the book, but you have to make people familiar with them. You have to have the tools to help them. And then I think we are going to see some success.

I wish I had more time. Thank you very much.

[The prepared statement of Mr. Abdnor follows:]

SBA U.S. Small Business Administration Washington, DC 20416

Prospects for Economic Development in Rural America

Statement of
James Abdnor, Administrator
U.S. Small Business Administration
Before the
Subcommittee on the Rural Economy and Family Farming
Committee on Small Business
United States Senate

July 13, 1988

Highlights

*Small businesses accounted for 94% of the rural employment growth from 1980-86.

*Rural Americans make up about 26% of our population, but their employment grew by less than 10% from 1980-86.

*Very small businesses, those with less than 20 employees, were responsible for about 2/3 of rural job growth.

*To be successful in rural economic development we must emphasize government policies which encourage starting and expanding rural small businesses.

*We must focus on small businesses which export to other communities, other states and other nations.

*Rural development will only occur if we export more goods and services and stop exporting our young people.

*A new partnership is needed among federal agencies and between federal agencies and the states.

*This year, the SBA will participate in at least one rural economic development conference in each of the fifty states...and multiple conferences in many larger states.

*SBA will provide special outreach services to 88 communities this year, 43 are already selected.

*SBA's financial assistance to rural areas is increasing; the average was 25% in 1986 and 27% in 1987.

Mr. Chairman, Members of the Subcommittee:

Thank you for inviting me to testify on a subject very near and dear to my heart, rural economic development. We must do everything we can to stop the economic decline and grave uncertainty that threatens many rural communities' very survival, and I'm here to tell you that the Small Business Administration is ready, willing and able to help.

The SBA is well aware of the concern many Senators and their staffs have about rural America. Some of you worked very hard to produce a rural development bill this year, particularly those on Agriculture Committee. We provided information, and continue to assist many who are seeking solutions to specific rural economic problems in their own states.

There are two main points I want to make today:

First, farming is very important in rural America, but most new jobs will probably be found off the farm in the future. Small businesses create the vast majority of new rural jobs, and new jobs are critical for rural economic development.

Second, we need partnerships among federal agencies with the states and the private sector to create rural economic vitality. States, not the federal government, are the leaders in rural economic development. Our role at the federal level is to help when we can, evaluate the effectiveness of our existing programs and delivery systems, and to work to remove legislative barriers.

Rural Development Extends Beyond the Farm Gate

Economically, historically and culturally, rural areas are a vital part of all of our lives, whether we grew up there or only visited on vacation. We were a nation of farmers at our founding, and rural America remains a part of our national heritage. Rural America depends on agriculture as a major source of income, although a growing number of small farmers must earn more of their income off the farm.

Many states, particularly in the Midwest and West, rely on farming and ranching for a good percentage of their rural income. The USDA's Economic Research Service reports that 10 states are "agriculture-dependent": Arkansas, Idaho, Iowa, Kansas, Minnesota, Mississippi, Montana, Nebraska, North Dakota and my own state of South Dakota. These states depend on farming for over 6 percent of their earnings. Add to that jobs in food processing, packaging and marketing, or the retail and service businesses that depend on farmers for their businesses, and you have a very large proportion of people and businesses that depend on agriculture.

One of the points I'd like to make here today is that rural development is not just agriculture, it is also small business. In fact, in many rural communities, small business is the only business. And we must pay just as much attention to the needs of existing firms and businesses in changing industries as we do to emerging businesses. Every community can't attract a high tech industry, but every business needs to be able to use new technology.

The drought in the Plains and Midwest today will probably cause a 2-3% increase in retail food prices, but that's not all it will do. Just now recovering from the economic decline, many hundreds of farmers won't be able to make it, even with emergency relief. However advances in productivity, technology and better equipment will mean more production by less farmers. Teddy Roosevelt said "the great rural interests are human interests, and good crops are of little value to the farmer unless they open the door to a good kind of life on the farm." Today, more than ever, we must help our rural citizens start small businesses.

About 26% of our people live in non-metropolitan communities of under 50,000; we consider these rural as do most federal agencies. These communities have been losing population since the turn of the century, except for a brief period in the 1970s. Of some concern to me, and I'm sure to you, is they account for less than 10% of our country's employment growth between 1980 and 1986. In this same time period, metropolitan areas accounted for over 90% of new jobs created.

The future of rural America depends on quality education for our young people, access to telecommunications technology and a retrained workforce, increased growth of small businesses, export trade, a good transportation system, and leadership to solve tomorrow's problems.

But I am not here today to talk about all the problems in rural America. Other speakers will give you a much more detailed look at these very serious problems than I could. I want to talk with you about the strategies and solutions we at the U.S. Small Business Administration have begun to uncover.

The Role Small Business Plays in Rural Economic Development

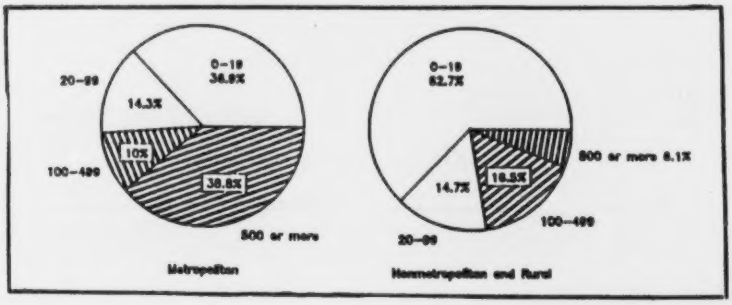
In rural America, small business is the main employer and responsible for almost all of the new jobs. Government policies to revitalize our rural economies must be policies that promote the formation and expansion of small business. That holds true for every level of government, and every agency.

In fact, rural small businesses with under 100 employees are making the most significant gains in manufacturing, transportation, finance and services. Large firms are losing jobs faster in mining and construction. Overall, small businesses were responsible for 94 percent of rural employment growth from 1980-1986.

As members of the Small Business Committee, I am sure you were already well aware that small businesses are the economic backbone of our country, but in rural America they are the very lifeblood! More than 98 percent of America's businesses are small. And these 18 million small businesses provide 66 percent of all new jobs, about 40 percent of our gross national product and half of all major innovations.

While 10.5 million new jobs have been created in the 6 years 1980-1986, these jobs have mainly been in urban areas. Between 1980 and 1986 the number of small business jobs grew 18 percent in urban areas and only 8.5 percent in rural areas.

NET INCREASE IN JOBS BETWEEN 1980 AND 1986
BY EMPLOYMENT SIZE OF FIRM



In fact very small businesses with less than 20 employees were responsible for almost 2/3 of all rural job growth.

But national averages don't tell the real story; we need to look at some specifics. Using the Small Business Data Base in our Office of Advocacy, we found rural small businesses outperform large businesses by a good margin. (See attached Tables I - VII.) In Montana, for example, employment in rural small businesses grew by 8.5 percent between 1980 and 1986, while urban small businesses actually lost jobs. Large firms lost employment in rural areas but increased employment in cities.

Maine is more similar to the national average with rural small business growing at only about half the rate of metropolitan areas. In Mississippi, rural and urban small business jobs grew at almost the same rates (14% urban, 11.4% rural), but large firms in urban areas were the strongest performers with a 37 percent increase between 1980 and 1986.

There are many possible explanations for these different rates of job growth, but we should all be concerned when rural small businesses are growing more slowly than those in urban areas. In some cases, the slower growth results from people moving to the cities. Small business growth and large business decline also reflect changes in the structure of some industries.

Future Prospects for Rural Small Business

As government leaders in the legislative and executive branches we must consider what lies ahead for rural America as we prepare to enter this final decade of the 20th Century. Mr. Chairman, you have asked some very hard questions, but they need to be asked...What is the future for rural America, and how can we, as leaders on the national scene, help make it a bright one?

You can't save any town unless you have good leaders there who are committed to doing what it takes to get the job done. In these "committed communities," we need to work together to create small business jobs which attract dollars from outside the community and outside the nation. No program is any better than the people that use it, but there are hundreds of talented business people in rural America with initiative.

We should encourage our entrepreneurs and established small businesses in the retail and finance industries to increase their growth rate to match that of urban small businesses. Government policies to help traditional rural businesses (such as farming, forestry, manufacturing and mining) compete internationally are vital. In the 21st Century, rural areas must also strive to be more competitive in the jobs of the future, particularly in the service sector - tourism, computing and data processing, health care and business services.

Exporting is extremely important for rural small businesses. Whether they export to a neighboring community, to urban areas, to other states or to other nations, rural small business growth will only occur if they attract dollars from outside their own community. In Philip, South Dakota, a little town of about a thousand people, there is a company called Scotchman Industries that manufactures steel working equipment that is sold around the world. Art Kroetch, the owner, employs 80 people which makes him one of the largest businessess around. He says that you can be just as competitive in South Dakota as in anywhere else in the country; good workers and a viable product are all that's needed.

The future of many rural small businesses may lie in teaching them to do what Art does, increase their sales by exporting and increase the number of good jobs available for young people who want to stay and start businesses. If rural communities are to survive and grow, their jobs must offer people a stable future, and create an economic climate attractive to everyone.

ACCESS 88 - SBA's Rural Economic Development Initiative

In my confirmation hearings before the Senate in March of last year, I promised to encourage the development of small business in rural America. I said "Rural states have some of the most productive and capable workers available. They have advantages in space and resources waiting to be mobilized," and my statement suggested that if we "encourage the development of small business in rural America, we minimize the negative environmental, ecological and social impact on urban institutions and services." I am here today to tell you that the entire SBA is now involved in rural small business development...without new dollars or a new program, per se. Every program I have can be used for rural economic development.

Access is the key to successful rural economic development. It is the theme of our initiative at the Small Business Administration, and stands for Assisting Committed Communities with Effective Solutions for Success. Small business development is our specialty, but there is no "cookie-cutter" approach. Each small business, each small community must consider a wide range of strategies and create their own plan for rural economic development.

In the last six months we held both Hearings and Roundtables with small business owners, bankers, representatives from federal agencies, states and local economic development professionals. All of these groups helped us identify solutions to rural economic problems. The U. S. Department of Agriculture (Farmers Home Administration and Extension Service), The Department of Commerce (International Trade Administration and Economic Development Administration), the Department of the Interior, Housing and Urban Development, Department of Labor, Department of Transportation (Federal Highway Administration), the Appalachian Regional Commission and the Tennessee Valley Authority were there. All told, over 1500 people took part in the 5 field hearings and 10 regional roundtables, representing all 50 states.

Based on their suggestions we believe there are 8 principal rural economic development needs and strategies for success:

1-Access to capital for small business development
2-Access to training & advice for business owners
3-Access to a workforce which is well-educated & trained
4-Access to information about government programs
5-Access to adequate infrastructure
6-Access to technology that competes globally
7-Access to marketing plans & strategies for growth
8-Access to leadership

Time only permits me to address three of these today, the three which SBA can most directly affect through our existing programs and services: #7-Marketing, #1-Capital, and #2-Training & Advice.

We established new outreach and marketing goals for SBA this year to improve the responsiveness of our programs in rural areas:

State Conferences. Each of SBA's district offices was asked to work with their top state officials to hold a rural economic development conference. These are cooperative efforts between SBA, the Governor, other states agencies and organizations which share our goal of increasing the number of jobs created by small businesses in rural areas. SBA has sponsored conferences in 19 states already this year, has selected dates and places in 16 more, and is finalizing plans with state officials in the other 15. By the end of this year, SBA will have participated in at least one rural economic development conference in each of the fifty states...and multiple conferences in many of the larger states.

Let me give you just one example. In Arkansas we had our Rural Economic Development conference on June 6th in Little Rock with cooperation from over a dozen different state and local agencies and 3 private sector sponsors. Ten different workshops were offered during the day-long conference for small business owners and local government officials. Senator

Bumpers was featured as the luncheon speaker. Over 300 people attended this meeting, which will be followed by 4 more specialized conferences around the state. Individual counseling was also provided during the day by loan officers, procurement specialists, SCORE and others at conference booths.

Target Communities. This year each of our SBA district offices will be working with state policymakers and leaders in at least one community, on a pilot basis, to undertake special outreach efforts. In Idaho, for example, we are working through the state Department of Commerce's "Gem Communities" program. In Illinois, we are working with the state Department of Commerce and Community Affairs. Throughout the SBA system, we have now selected 43 target communities in 10 states. An additional 26 communities are under consideration.

I want to emphasize we are not arbitrarily selecting communities to help. In every case, the community itself must request assistance from SBA or the state. We then work with the state and other federal agencies to design special programs to meet that community's particular needs.

Sibley County, Minnesota was one of the first communities targeted in a cooperative pilot with other federal and state government officials. At a recent meeting, the following 6 federal agencies, 3 state agencies, county and city officials, a regional Action Council and private industry were represented. The County Commissioners agreed to hire a Rural Development Coordinator and are developing an industrial park.

Financial Assistance. SBA business loans and certified development company loans are part of our strategy to increase access to capital in rural areas. Nationally, the rural percentage of SBA's lending activity is now slightly higher than the rural population: 26%. In Fiscal Year 1986, our national average was 25%, which increased to almost 27% in FY 1987, and I expect we will equal or surpass this number by the end of the present fiscal year.

National averages do not tell the whole story, however, since some of our regions are more rural than others. Region VII (including Kansas, Iowa, Missouri and Nebraska), for example, had over 40% of its financial assistance in nonmetropolitan areas last year, and Region VIII (includes North and South Dakota, Wyoming, Montana, Utah and Colorado) exceeded 60%. The more urbanized Regions II and III on the East Coast and Region IX on the West Coast all had rural averages under 15%.

These statistics are a measure of the success of our efforts to acquaint more rural lending officials with SBA, and expand activity by our Certified Development Companies. And we know increased loan guaranties mean increased jobs in rural areas, an estimated 760 new rural jobs in Iowa, for instance.

Business Development. SBA management assistance and counseling programs form a part of strategies to increase access to training and counseling to business owners. Examples include:

> Small Business Institutes (SBI) are helping rural areas diversify their economies. In Ohio, SBI students at the University of Cincinnati are conducting a feasibility study for an agribusiness incubator, and in a similar South Carolina study local leaders have already selected a site. In Strawberry Point, Iowa the SBI and SCORE have teamed up to help retail businesses increase their tourist trade.
>
> In Boise, the Senior Corps of Retired Executives (SCORE) is holding seminars on how to create "hometown" jobs in rural "Gem State" communities with materials from the National Association of Towns and Townships.
>
> SBA's Nashville, Tennessee District office will begin a new outreach effort to small communities, in cooperation with the Tennessee Valley Authority this fall, using a "Mobile Small Business Assistance Center." They plan a week-long series of events in participating communities using a specially converted mobile home as the focal point.

You might also be interested in a purely private effort which involved Bud Thompson, one of our District Advisory Council members. Prophetstown, Illinois is a small community that knew it needed to attract new jobs but didn't want to "give away the farm". They decided they didn't need government help, and did it on their own by creating a corporation called Prophetstown Manufacturing, Inc.. They sold 50,000 shares of common stock at $10 a share and raised enough money to buy a basically sound manufacturing business and move it to town. That business, Clear Creek Furniture, created only a few jobs but showed community leaders they can control their own destiny.

Federal Interagency Cooperation

It has been our policy, from the beginning, to blend together all of our resources with those of other organizations to accomplish what none of us could do alone. Before we even announced our ACCESS 88 initiative, we sat down with representatives from a number of other federal agencies, as well as the National Governors' Association to discuss our ideas and ask for their help. There is so much to be done in rural economic development we needed the help and involvement of others to make our program a success. I want to take this opportunity to express my appreciation to each and every one.

Today the SBA has a number of cooperative efforts on rural development with other federal agencies. In February, SBA and Farmer's Home signed a memorandum of understanding which asked our field staff to learn more about each others' programs and undertake joint ventures. It is working very well. Just last month we held a joint conference with the EDA and the

Appalachian Regional Commission on "Alternative Sources of Business Financing". We are developing a cooperative agreement with the USDA Extension Service, and will assist HUD in implementing their new enterprise zone program, one-third of which will be rural. In Region V, we are jointly funding a community enterprise development project with HUD. Many of our district office directors have been members of USDA's Food and Agricultural Councils for years, and many are charter members of their Rural Enterprise Teams.

Peter Myers, Deputy Secretary of the Department of Agriculture, and Chair of the White House Task Force on Rural Communities, has been a real supporter of these joint efforts. He and I agree that it's now time to meet with Governors to discuss rural economic development relative to state and federal programs. We hope to start the dialogue some time this fall.

ACCESS to Information about Government Programs

The SBA has taken it upon themselves to consolidate information about all of the state and federal government programs that can be used in rural economic development. Since I first learned about the hundreds of government programs already on the books, I have said that we need a single guide to all of the state and federal programs, one place to find information and rural economic development contacts. I am happy to say that this Guide, called Working Together: A Guide to Federal and State Programs for Rural Economic Development, is being published under SBA's leadership right now. Every Senator and Congressman will receive a copy. The Guide is an example of the public-private partnerships that SBA has become known for: it is financed by Southwestern Bell Telephone Company and produced by the Council of State Governments.

Working Together brings together information about as many federal and state programs as we could find: 11 different federal agencies and every one of the 50 states are included. Strategies are provided for each of these access problems. While the book is over 200 pages long, it is organized by state and is easy to use. There are over 700 programs listed, and I question whether we listed them all! Going through the draft the other night, I found that 4 of the 11 federal agencies have programs for business assistance: SBA, EDA, HUD, and USDA's Farmer's Home Administration. That's not to mention all of the various state, non-profit and private sources of funds or the demonstration projects now being conducted by HHS and Labor!

SBA has also produced a videotape called Working Together which will be used this year in cooperation with SCORE, the Service Corps of Retired Executives. SCORE Chapters will establish special teams of volunteer retired business counselors for target communities, rural chambers of commerce, and other local leaders who want to stimulate rural small business development.

While cooperation is important, we must also assure that we remove economic barriers to international competitiveness and rural economic development. A healthy economic environment will do more to stimulate rural job creation than federal bureaucrats could accomplish in many meetings.

Such policies as mandated health benefits, family leave and an increased minimum wage being debated by Congress would have important negative effects on small businesses, effects which would be exaggerated in rural areas because of their heavy reliance on small firms.

The Leadership of the States

The states have the lead role to play in creating a bright future for rural America, and many have been actively working on rural development for years. Governors such as Terry Branstad of Iowa and Kay Orr of Nebraska have achieved national visibility for rural economic development issues. Within their own states, many Governors, Lieutenant Governors and State Legislators are taking leaderhip positions too. George Ryan, for example, Lieutenant Governor of Illinois, headed a Task Force on the Future of Rural Illinois last year, and is now taking the lead to implement its recommendations.

Another interesting example of state leadership is North Carolina's Rural Economic Development Center, last year as a not-for-profit organization with state and private funds for demonstration projects and information. In fact, we hope that the Center will provide funds for SBA to establish 2 or 3 mini-business development offices in rural areas. A growing number of private foundations are now very involved in rural economic development, particularly the Winthrop Rockefeller Foundation in Arkansas and the McKnight Foundation in Minnesota. Mr. Chairman, these are people who should be testifying at this hearing...they are the innovators and the future leaders of rural America's recovery.

Working together, we can increase rural small business' share of the world export market. Financing for small business expansions and start-ups should be given higher priority by our lending institutions, development organizations and venture capitalists.

Rural America and the 63 million people who live there are a national resource, one that we cannot afford to let die away. By working together, we can ensure a brighter future for rural Americans, thus ensuring a brighter future for all Americans. But it will take all of us working together to provide the leadership to bring this about.

In closing, I would emphasize three points:

We need cooperation between federal agencies and the states;

Our programs should be focused and targeted at communities in need; and

Let's get the most our of what we already have to work with.

Every federal program administrator, every Secretary of a Department, and every member of Congress should assure that their programs are effective in rural areas, and should be willing to make the necessary changes if they are not.

Let me assure you that the entire SBA is prepared to encourage rural economic development, and we look forward to continuing to work with state leaders and other federal agencies, as well as the private sector in a spirit of partnership and cooperation.

Thank you for you the opportunity to be with you today.

TABLE I

NUMBER OF JOBS AND EMPLOYMENT GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL* AREAS IN MONTANA

MONTANA

		EMPLOYMENT SIZE OF FIRM					
TYPE OF COUNTY	Total	0-19	20-99	<100	100-499	<500	500 or more
TOTAL							
1980	236,313	72,821	44,581	117,402	28,405	145,806	90,507
1986	241,513	82,100	42,534	124,634	29,377	154,011	87,503
Percent Change	2.2	12.7	-4.6	6.2	3.4	5.6	-3.3
METROPOLITAN							
1980	72,935	17,907	14,696	32,603	12,401	45,004	27,931
1986	78,802	20,506	13,045	33,551	11,087	44,638	34,164
Percent Change	8.0	14.5	-11.2	2.9	-10.6	-0.8	22.3
NONMETROPOLITAN AND RURAL							
1980	163,378	54,913	29,885	84,798	16,004	100,802	62,576
1986	162,712	61,594	29,489	91,083	18,290	109,373	53,339
Percent Change	-0.4	12.2	-1.3	7.4	14.3	8.5	-14.8

*NOTE: Metropolitan Counties and Areas are defined by the Office of Management and Budget. Nonmetropolitan and rural counties are identified by the Economic Research Service, U.S. Department of Agriculture(USDA), based on population and on proximity to urban counties. The USDA definitions break all counties into ten classes: four metropolitan, four nonmetropolitan and two rural. Most analysts combine nonmetropolitan and rural counties into one group.

Source: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Generation-US and State 1980-1986, LUPE.v8.

TABLE II

NUMBER OF JOBS AND EMPLOYMENT GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL* AREAS IN MAINE

MAINE

TYPE OF COUNTY	Total	EMPLOYMENT SIZE OF FIRM 0-19	20-99	<100	100-499	<500	500 or more
TOTAL							
1980	387,252	72,001	67,467	139,468	57,324	196,792	190,460
1986	419,246	87,137	71,554	158,691	59,420	218,111	201,135
Percent Change	8.3	21.0	6.1	13.8	3.7	10.8	5.6
METROPOLITAN							
1980	258,846	41,945	42,619	84,565	34,103	118,668	140,178
1986	283,078	52,151	45,917	98,068	36,305	134,373	148,705
Percent Change	9.4	24.3	7.7	16.0	6.5	13.2	6.1
NONMETROPOLITAN AND RURAL							
1980	128,406	30,056	24,847	54,903	23,221	78,124	50,282
1986	136,168	34,986	25,637	60,623	23,115	83,738	52,430
Percent Change	6.0	16.4	3.2	10.4	-0.5	7.2	4.3

*NOTE: Metropolitan Counties and Areas are defined by the Office of Management and Budget. Nonmetropolitan and rural counties are identified by the Economic Research Service, U.S. Department of Agriculture(USDA), based on population and on proximity to urban counties. The USDA definitions break all counties into ten classes: four metropolitan, four nonmetropolitan and two rural. Most analysts combine nonmetropolitan and rural counties into one group.

Source: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Generation-US and State 1980-1986, LUPE.v8.

TABLE III

NUMBER OF JOBS AND EMPLOYMENT GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL* AREAS IN MISSISSIPPI

MISSISSIPPI

		EMPLOYMENT SIZE OF FIRM					
TYPE OF COUNTY	Total	0-19	20-99	<100	100-499	<500	500 or more
TOTAL							
1980	681,020	129,614	110,424	240,038	109,208	349,247	331,774
1986	784,792	156,125	118,711	274,836	116,995	391,831	392,961
Percent Change	15.2	20.5	7.5	14.5	7.1	12.2	18.4
METROPOLITAN							
1980	234,932	38,929	37,409	76,338	34,272	110,610	124,322
1986	296,385	49,284	41,288	90,572	35,535	126,106	170,279
Percent Change	26.2	26.6	10.4	18.6	3.7	14.0	37.0
NONMETROPOLITAN AND RURAL							
1980	446,089	90,685	73,015	163,700	74,937	238,637	207,452
1986	488,407	106,841	77,424	184,265	81,460	265,725	222,682
Percent Change	9.5	17.8	6.0	12.6	8.7	11.4	7.3

*NOTE: Metropolitan Counties and Areas are defined by the Office of Management and Budget. Nonmetropolitan and rural counties are identified by the Economic Research Service, U.S. Department of Agriculture(USDA), based on population and on proximity to urban counties. The USDA definitions break all counties into ten classes: four metropolitan, four nonmetropolitan and two rural. Most analysts combine nonmetropolitan and rural counties into one group.

Source: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Generation-US and State 1980-1986, LUPE.v8.

TABLE IV

NUMBER OF JOBS AND EMPLOYMENT GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL* AREAS IN ARKANSAS

ARKANSAS

		EMPLOYMENT SIZE OF FIRM					
TYPE OF COUNTY	Total	0-19	20-99	<100	100-499	<500	500 or more
TOTAL							
1980	720,416	150,357	106,974	257,331	93,906	351,236	369,179
1986	782,357	173,575	117,487	291,062	104,066	395,128	387,229
Percent Change	8.6	15.4	9.8	13.1	10.8	12.5	4.9
METROPOLITAN							
1980	339,947	62,641	52,018	114,659	44,838	159,497	180,450
1986	374,409	76,884	58,066	134,950	46,347	181,297	193,112
Percent Change	10.1	22.7	11.6	17.7	3.4	13.7	7.0
NONMETROPOLITAN AND RURAL							
1980	380,469	87,716	54,956	142,672	49,067	191,739	188,730
1986	407,947	96,691	59,421	156,111	57,719	213,831	194,117
Percent Change	7.2	10.2	8.1	9.4	17.6	11.5	2.9
1986							
Percent Change							

*NOTE: Metropolitan Counties and Areas are defined by the Office of Management and Budget. Nonmetropolitan and rural counties are identified by the Economic Research Service, U.S. Department of Agriculture(USDA), based on population and on proximity to urban counties. The USDA definitions break all counties into ten classes: four metropolitan, four nonmetropolitan and two rural. Most analysts combine nonmetropolitan and rural counties into one group.

Source: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Generation-US and State 1980-1986, LUPE.v8.

TABLE V
NUMBER OF BUSINESSES IN NONMETROPOLITAN AND RURAL AREAS BY INDUSTRY, 1984

	EMPLOYMENT SIZE OF FIRM						
INDUSTRY	Total	0-19	20-99	< 100	100-499	< 500	500 or more
All Industries	809,427	733,219	65,005	798,225	9,869	808,093	1,333
Agriculture	41,285	39,529	1,551	41,081	171	41,252	33
Mining	15,245	12,723	2,214	14,936	284	15,220	25
Construction	104,700	99,137	5,072	104,211	430	104,641	59
Manufacturing	59,174	44,435	11,377	55,813	2,847	58,660	513
Trans. and Utilities	34,544	30,245	3,822	34,067	427	34,494	48
Wholesale Trade	83,049	76,094	6,463	82,558	455	83,013	35
Retail Trade	295,091	274,708	19,148	293,858	1,100	294,958	133
Finance, Ins. and Real Estate	35,122	30,541	4,049	34,591	480	35,071	53
Services	141,219	125,803	11,308	137,111	3,674	140,785	434

*NOTE: Agriculture includes only large farm operations producing brand name products and is not representative of the agricultural economy.

SOURCE: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Job Generation-TOPS and Simples 1980-1984, LUPE.v6.

TABLE VI

NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL AREAS

		EMPLOYMENT SIZE OF FIRM					
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
ALL INDUSTRIES							
All Classes							
1980	80,671,322	15,068,358	13,989,966	29,058,324	11,894,557	40,952,881	39,718,441
1986	91,080,600	19,095,805	15,481,552	34,577,357	12,985,066	47,562,423	43,518,177
Net Chg.	10,409,278	4,027,447	1,491,586	5,519,033	1,090,509	6,609,542	3,799,736
Pct. Chg.	12.9	26.7	10.7	19.0	9.2	16.1	9.6
Metropolitan							
1980	66,498,678	11,719,276	11,509,216	23,228,492	9,744,163	32,972,655	33,526,023
1986	76,183,220	15,292,366	12,894,134	28,186,500	10,714,846	38,901,346	37,281,874
Net Chg.	9,684,542	3,573,090	1,384,918	4,958,008	970,683	5,928,691	3,755,851
Pct. Chg.	14.6	30.5	12.0	21.3	10.0	18.0	11.2
Nonmetropolitan and Rural							
1980	14,172,644	3,349,083	2,480,749	5,829,832	2,150,394	7,980,226	6,192,418
1986	14,897,380	3,803,439	2,587,417	6,390,856	2,270,221	8,661,077	6,236,303
Net Chg.	724,736	454,356	106,668	561,024	119,827	680,851	43,885
Pct. Chg.	5.1	13.6	4.3	9.6	5.6	8.5	0.7
AGRICULTURE							
All Classes							
1980	799,059	358,741	181,731	540,472	116,565	657,037	142,022
1986	936,817	465,175	185,570	650,745	105,502	756,247	180,570
Net Chg.	137,758	106,434	3,839	110,273	(11,063)	99,210	38,548
Pct. Chg.	17.2	29.7	2.1	20.4	-9.5	15.1	27.1
Metropolitan							
1980	486,652	206,333	120,617	326,950	78,200	405,150	81,502
1986	591,153	279,984	132,293	412,277	75,555	487,832	103,321
Net Chg.	104,501	73,651	11,676	85,327	(2,645)	82,682	21,819
Pct. Chg.	21.5	35.7	9.7	26.1	-3.4	20.4	26.8
Nonmetropolitan and Rural							
1980	312,406	152,408	61,114	213,522	38,365	251,887	60,519
1986	345,663	185,191	53,277	238,468	29,947	268,415	77,248
Net Chg.	33,257	32,783	(7,837)	24,946	(8,418)	16,528	16,729
Pct. Chg.	10.6	21.5	-12.8	11.7	-21.9	6.6	27.6

TABLE VI

NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL AREAS

		EMPLOYMENT SIZE OF FIRM					
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
MINING							
All Classes							
1980	1,180,172	122,109	157,352	279,461	151,353	430,814	749,358
1986	1,104,951	172,297	143,048	315,345	134,286	449,631	655,320
Net Chg.	(75,221)	50,188	(14,304)	35,884	(17,067)	18,817	(94,038)
Pct. Chg.	-6.4	41.1	-9.1	12.8	-11.3	4.4	-12.5
Metropolitan							
1980	640,238	64,670	76,563	141,233	81,009	222,242	417,996
1986	649,125	95,769	71,428	167,197	77,194	244,391	404,734
Net Chg.	8,887	31,099	(5,135)	25,964	(3,815)	22,149	(13,262)
Pct. Chg.	1.4	48.1	-6.7	18.4	-4.7	10.0	-3.2
Nonmetropolitan and Rural							
1980	539,934	57,439	80,789	138,228	70,344	208,572	331,362
1986	455,825	76,528	71,620	148,148	57,091	205,239	250,586
Net Chg.	(84,109)	19,089	(9,169)	9,920	(13,253)	(3,333)	(80,776)
Pct. Chg.	-15.6	33.2	-11.3	7.2	-18.8	-1.6	-24.4
CONSTRUCTION							
All Classes							
1980	4,763,096	1,907,047	1,260,012	3,167,059	719,647	3,886,706	876,390
1986	5,067,600	2,392,145	1,319,442	3,711,587	630,727	4,342,314	725,286
Net Chg.	304,504	485,098	59,430	544,528	(88,920)	455,608	(151,104)
Pct. Chg.	6.39	25.44	4.72	17.19	(12.36)	11.72	(17.24)
Metropolitan							
1980	3,981,564	1,511,520	1,084,444	2,595,964	631,937	3,227,901	753,663
1986	4,360,126	1,960,972	1,167,462	3,128,434	567,830	3,696,264	663,862
Net Chg.	378,562	449,452	83,018	532,470	(64,107)	468,363	(89,801)
Pct. Chg.	9.5	29.7	7.7	20.5	-10.1	14.5	-11.9
Nonmetropolitan and Rural							
1980	781,532	395,527	175,568	571,095	87,711	658,806	122,726
1986	707,476	431,173	151,980	583,153	62,898	646,051	61,425
Net Chg.	(74,056)	35,646	(23,588)	12,058	(24,813)	(12,755)	(61,301)
Pct. Chg.	-9.5	9.0	-13.4	2.1	-28.3	-1.9	-49.9

TABLE VI

NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL AREAS

		EMPLOYMENT SIZE OF FIRM					
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
MANUFACTURING							
All Classes							
1980	23,895,256	1,494,327	2,891,326	4,385,653	3,390,476	7,776,129	16,119,127
1986	22,716,343	2,067,751	3,078,856	5,146,607	3,195,517	8,342,124	14,374,219
Net Chg.	(1,178,913)	573,424	187,530	760,954	(194,959)	565,995	(1,744,908)
Pct. Chg.	-4.9	38.4	6.5	17.4	-5.8	7.3	-10.8
Metropolitan							
1980	18,699,727	1,241,416	2,405,056	3,646,472	2,641,634	6,288,105	12,411,621
1986	17,840,725	1,731,937	2,559,077	4,291,013	2,456,473	6,747,486	11,093,240
Net Chg.	(859,002)	490,521	154,021	644,541	(185,161)	459,381	(1,318,381)
Pct. Chg.	-4.6	39.5	6.4	17.7	-7.0	7.3	-10.6
Nonmetropolitan and Rural							
1980	5,195,529	252,911	486,271	739,182	748,842	1,488,024	3,707,505
1986	4,875,618	335,815	519,779	855,594	739,044	1,594,638	3,280,980
Net Chg.	(319,911)	82,904	33,508	116,412	(9,798)	106,614	(426,525)
Pct. Chg.	-6.2	32.8	6.9	15.7	-1.3	7.2	-11.5
TRANSPORTATION AND PUBLIC UTILITIES							
All Classes							
1980	5,567,006	576,224	660,244	1,236,468	552,560	1,789,028	3,777,978
1986	6,410,114	790,847	752,916	1,543,763	605,707	2,149,470	4,260,644
Net Chg.	843,108	214,623	92,672	307,295	53,147	360,442	482,666
Pct. Chg.	15.1	37.2	14.0	24.9	9.6	20.1	12.8
Metropolitan							
1980	4,842,419	421,878	520,241	942,119	474,232	1,416,351	3,426,068
1986	5,531,573	596,356	592,538	1,188,894	513,766	1,702,660	3,828,913
Net Chg.	689,154	174,478	72,297	246,775	39,534	286,309	402,845
Pct. Chg.	14.2	41.4	13.9	26.2	8.3	20.2	11.8
Nonmetropolitan and Rural							
1980	724,588	154,346	140,003	294,349	78,328	372,677	351,911
1986	878,541	194,491	160,378	354,869	91,941	446,810	431,731
Net Chg.	153,953	40,145	20,375	60,520	13,613	74,133	79,820
Pct. Chg.	21.2	26.0	14.6	20.6	17.4	19.9	22.7

TABLE VI

NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL AREAS

		EMPLOYMENT SIZE OF FIRM					
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
WHOLESALE TRADE							
All Classes							
1980	5,583,227	1,796,008	1,419,213	3,215,221	795,292	4,010,513	1,572,714
1986	6,373,995	2,318,276	1,465,414	3,783,690	828,645	4,612,335	1,761,660
Net Chg.	790,768	522,268	46,201	568,469	33,353	601,822	188,946
Pct. Chg.	14.16	29.08	3.26	17.68	4.19	15.01	12.01
Metropolitan							
1980	4,746,712	1,392,847	1,202,871	2,595,718	704,432	3,300,150	1,446,562
1986	5,490,414	1,895,002	1,261,734	3,156,736	732,774	3,889,510	1,600,904
Net Chg.	743,702	502,155	58,863	561,018	28,342	589,360	154,342
Pct. Chg.	15.7	36.1	4.9	21.6	4.0	17.9	10.7
Nonmetropolitan and Rural							
1980	836,514	403,161	216,341	619,502	90,860	710,362	126,152
1986	883,582	423,274	203,680	626,954	95,872	722,826	160,756
Net Chg.	47,068	20,113	(12,661)	7,452	5,012	12,464	34,604
Pct. Chg.	5.6	5.0	-5.9	1.2	5.5	1.8	27.4
RETAIL TRADE							
All Classes							
1980	14,782,113	4,699,415	3,457,921	8,157,336	1,620,036	9,777,372	5,004,741
1986	17,137,914	5,051,308	3,612,560	8,663,868	1,878,373	10,542,241	6,595,673
Net Chg.	2,355,801	351,893	154,639	506,532	258,337	764,869	1,590,932
Pct. Chg.	15.9	7.5	4.5	6.2	15.9	7.8	31.8
Metropolitan							
1980	11,931,823	3,361,891	2,749,741	6,111,632	1,371,444	7,483,076	4,448,747
1986	13,954,141	3,691,153	2,900,951	6,592,104	1,588,162	8,180,266	5,773,875
Net Chg.	2,022,318	329,262	151,210	480,472	216,718	697,190	1,325,128
Pct. Chg.	16.9	9.8	5.5	7.9	15.8	9.3	29.8
Nonmetropolitan and Rural							
1980	2,850,290	1,337,524	708,180	2,045,704	248,591	2,294,295	555,995
1986	3,183,773	1,360,155	711,609	2,071,764	290,211	2,361,975	821,798
Net Chg.	333,483	22,631	3,429	26,060	41,620	67,680	265,803
Pct. Chg.	11.7	1.7	0.5	1.3	16.7	2.9	47.8

TABLE VI

NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR METROPOLITAN AND RURAL AREAS

				EMPLOYMENT SIZE OF FIRM			
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
FINANCE, INSURANCE AND REAL ESTATE							
All Classes							
1980	5,235,957	1,023,114	929,284	1,952,398	797,942	2,750,340	2,485,617
1986	6,882,734	1,353,806	1,091,321	2,445,127	1,017,712	3,462,839	3,419,895
Net Chg.	1,646,777	330,692	162,037	492,729	219,770	712,499	934,278
Pct. Chg.	31.5	32.3	17.4	25.2	27.5	25.9	37.6
Metropolitan							
1980	4,879,464	894,404	814,723	1,709,127	747,335	2,456,662	2,422,802
1986	6,376,623	1,180,214	954,205	2,134,419	940,498	3,074,917	3,301,706
Net Chg.	1,497,159	285,810	139,482	425,292	192,963	618,255	878,904
Pct. Chg.	30.7	32.0	17.1	24.9	25.8	25.2	36.3
Nonmetropolitan and Rural							
1980	356,492	128,710	114,560	243,270	50,407	293,677	62,815
1986	506,111	173,592	137,116	310,708	77,214	387,922	118,189
Net Chg.	149,619	44,882	22,556	67,438	26,807	94,245	55,374
Pct. Chg.	42.0	34.9	19.7	27.7	53.2	32.1	88.2
SERVICES							
All Classes							
1980	18,865,441	3,091,374	3,032,884	6,124,258	3,750,687	9,874,945	8,990,496
1986	24,450,133	4,484,201	3,832,425	8,316,626	4,588,598	12,905,224	11,544,909
Net Chg.	5,584,692	1,392,827	799,541	2,192,368	837,911	3,030,279	2,554,413
Pct. Chg.	29.60	45.06	26.36	35.80	22.34	30.69	28.41
Metropolitan							
1980	16,290,080	2,624,317	2,534,960	5,159,277	3,013,741	8,173,018	8,117,062
1986	21,389,339	3,860,980	3,254,447	7,115,427	3,762,594	10,878,021	10,511,318
Net Chg.	5,099,259	1,236,663	719,487	1,956,150	748,853	2,705,003	2,394,256
Pct. Chg.	31.3	47.1	28.4	37.9	24.8	33.1	29.5
Nonmetropolitan and Rural							
1980	2,575,359	467,056	497,924	964,980	736,946	1,701,926	873,433
1986	3,060,793	623,221	577,978	1,201,199	826,004	2,027,203	1,033,590
Net Chg.	485,434	156,165	80,054	236,219	89,058	325,277	160,157
Pct. Chg.	18.8	33.4	16.1	24.5	12.1	19.1	18.3

TABLE VII
NUMBER OF JOBS AND JOB GROWTH BETWEEN 1980 AND 1986 FOR NONMETROPOLITAN AND RURAL AREAS

		EMPLOYMENT SIZE OF FIRM					
Type of County	Total	0-19	20-99	<100	100-499	<500	500 or more
All Industries							
Employment in 1986	14,897,380	3,803,439	2,587,417	6,390,856	2,270,221	8,661,077	6,236,303
Net Chg.	724,736	454,356	106,668	561,024	119,827	680,851	43,885
Pct. Chg.	5.1	13.6	4.3	9.6	5.6	8.5	0.7
Agriculture							
Employment in 1986	345,663	185,191	53,277	238,468	29,947	268,415	77,248
Net Chg.	33,257	32,783	(7,837)	24,946	(8,418)	16,528	16,729
Pct. Chg.	10.6	21.5	-12.8	11.7	-21.9	6.6	27.6
Mining							
Employment in 1986	455,825	76,528	71,620	148,148	57,091	205,239	250,586
Net Chg.	(84,109)	19,089	(9,169)	9,920	(13,253)	(3,333)	(80,776)
Pct. Chg.	-15.6	33.2	-11.3	7.2	-18.8	-1.6	-24.4
Construction							
Employment in 1986	707,476	431,173	151,980	583,153	62,898	646,051	61,425
Net Chg.	(74,056)	35,646	(23,588)	12,058	(24,813)	(12,755)	(61,301)
Pct. Chg.	-9.5	9.0	-13.4	2.1	-28.3	-1.9	-49.9
Manufacturing							
Employment in 1986	4,875,618	335,815	519,779	855,594	739,044	1,594,638	3,280,980
Net Chg.	(319,911)	82,904	33,508	116,412	(9,798)	106,614	(426,525)
Pct. Chg.	-6.2	32.8	6.9	15.7	-1.3	7.2	-11.5
Transportation and Public Utilities							
Employment in 1986	878,541	194,491	160,378	354,869	91,941	446,810	431,731
Net Chg.	153,953	40,145	20,375	60,520	13,613	74,133	79,820
Pct. Chg.	21.2	26.0	14.6	20.6	17.4	19.9	22.7
Wholesale Trade							
Employment in 1986	883,582	423,274	203,680	626,954	95,872	722,826	160,756
Net Chg.	47,068	20,113	(12,661)	7,452	5,012	12,464	34,604
Pct. Chg.	5.6	5.0	-5.9	1.2	5.5	1.8	27.4
Retail Trade							
Employment in 1986	3,183,773	1,360,155	711,609	2,071,764	290,211	2,361,975	821,798
Net Chg.	333,483	22,631	3,429	26,060	41,620	67,680	265,803
Pct. Chg.	11.7	1.7	0.5	1.3	16.7	2.9	47.8
Finance, Insurance, Real Estate							
Employment in 1986	506,111	173,592	137,116	310,708	77,214	387,922	118,189
Net Chg.	149,619	44,882	22,556	67,438	26,807	94,245	55,374
Pct. Chg.	42.0	34.9	19.7	27.7	53.2	32.1	88.2
Services							
Employment in 1986	3,060,793	623,221	577,978	1,201,199	826,004	2,027,203	1,033,590
Net Chg.	485,434	156,165	80,054	236,219	89,058	325,277	160,157
Pct. Chg.	18.8	33.4	16.1	24.5	12.1	19.1	18.3

*NOTE: Metropolitan Counties and Areas are defined by the Office of Management and Budget. Nonmetropolitan and rural counties are identified by the Economic Research Service, U.S. Department of Agriculture(USDA), based on population and on proximity to urban counties. The USDA definitions break all counties into ten classes: four metropolitan, four nonmetropolitan and two rural. Most analysts combine nonmetropolitan and rural counties into one group.

NOTE: Agriculture includes only large farm operations producing brand name products and is not representative of the agricultural economy.

Source: U.S. Small Business Administration, Small Business Data Base, U.S. Establishment Longitudinal Microdata File(USELM): Generation-US and State 1980-1986, LUPE.v8.

Senator Baucus. Thank you.

I think your statement is a good place to begin. You mentioned there are about 700 programs and maybe more to help rural America. The question is, do those programs make a difference? Do they work?

In part, maybe as you suggest, people do not know about them. On the other hand, maybe these programs are good in their intent, but they are not very good in their result.

Mr. Abdnor. When I went around to these hearings, I was shocked at how few people knew about our programs.

Senator Baucus. Let us take the case of a person who is going to testify in the next panel. This person is from Wolf Point, MT. She will testify to the very acute problems that her company is facing. These problems revolve around what you mentioned; lack of access. A good examples of a major problem for this witness is lack of access to an adequate transportation sysyem.

The question is whether the 700 programs we currently have are going to help her very much.

There is a small commuter airline that, on occasion, flies into Wolf Point, MT. The trouble is that in her business, as is true with many businesses, she needs immediate access to markets. She needs to be able to travel quickly to customers to take care of their needs.

In addition, there is no bus service to Wolf Point, MT and she cannot depend upon Amtrak.

So what does she do? To what degree do these 700 programs help her and her company get better transportation so that she can market her products, develop better products, and learn more by talking to her customers outside of Wolf Point?

I don't think these 700 programs you talked about help her one iota.

The same is true with telecommunications. As you know, in rural America many smaller communities do not have digital switching. Digital equipment is more and more necessary as our society becomes higher tech. Fiber optics and other forms of more enhanced telecommunications equipment, are just not available in rural areas.

The fact of the matter is, this witness is facing such a tough time because of inadequate air transportation, inadequate telecommunications, and inadequate access to capital that she does not know whether she can continue to hang on and stay in Wolf Point, MT. Her company provides at least 56 jobs critical to Wolf Point's economy and has been there for many years. I think Federal Government policies, or lack thereof, toward rural America are forcing her out.

This six-point program that you mentioned, Mr. Secretary—it that does not mean anything to her. And the 700 programs that we heard about, I do not know if they make much difference, because as a practical matter she has got to have access to markets and to capital in order to do any business at all.

Programs are programs, but what counts is whether she can get her products to market.

Mr. Vautour. There are certain impediments to rural development that I think we, not necessarily in Government, but I think we in the private sector and in rural America are going to have to come to grips with. And that is the movement of capital, the movement of people, the movement of goods, and the communication between all of them.

And I have found that one of the largest problems we run into is the inadequacy of venture capital out in rural America, and the reason for that is that venture capitalists will not vary a whole lot from San Francisco, Los Angeles, Atlanta, Boston, New York, and Chicago, or St. Louis. They tend to group around major metropolitan areas.

The matter of transportation, if you will—and you point that out very graphically. I am not sure that there are any programs at this point that would address the lack of sufficient traffic to make that kind of service viable. But it points out an approach that we in the Department are taking, and we are coming to the realization—we have come to it quite some time ago—that not every little town in the United States is going to be fortunate enough to get its own branch plant of IBM, Digital, Wang, or whatever.

Senator BAUCUS. Not every little town, but the problem is no town.

Mr. VAUTOUR. Maybe the point I am trying to make is that development is going to have to take place around natural trade and transportation and commercial centers. I would use the illustration of Broken Bow, NE, which was down and out about 3 years ago, now not prosperous, but at least healthy.

And they did it by employing 5,700 people in Broken Bow. Yet there are only 3,700 people that live in Broken Bow. So that tells you they are drawing from the outlying communities, and Broken Bow now has its own airport and has digital equipment and fiber optics.

Senator BAUCUS. What do you think of the idea of Congress providing tax incentives to airlines to provide rural service? For example, accelerated depreciation on equipment that went into rural areas. We could provide similar incentives to the telecommunications or banking industries.

This would be affirmative, positive policy. It gives incentives to private enterprise to establish better services in rural America.

Does something like this make any sense to either of you?

Mr. VAUTOUR. Well, I think the matter of whether it makes sense or not is a call that the Congress itself is going to have to make. In terms of economics, yes.

Senator BAUCUS. You are the expert. Does it take something like that to begin to solve this problem, so we are not just talking about it?

Mr. VAUTOUR. I guess if you back me into a corner, I would have to say that if the market is not there, it is probably not going to be very successful.

Senator BAUCUS. This country has historically had affirmative policies to help rural America. At the time when agriculture was proportionally even more important in rural America than it is today, we had Farmers Home Administration and other programs.

But today, rural America's economy is changing and we need new policies and programs to address new problems.

Mr. VAUTOUR. It is a given. You have to move people. How you do that I would leave to better brains than mine. But if it takes a tax incentive to do it and if development is to happen in an area where transportation is not available, maybe that is the only route you can take.

But I personally—and what I am about to say is not going to correct the situation that exists today. It is going to address the situation that we hope will develop tomorrow. That is, that by developing around natural transportation centers we can circumvent that problem.

But it is not going to answer the problem that you just mentioned.

Senator BAUCUS. Well, I have taken a lot of time here. We are very honored to have with us Senator Bond from Missouri, who is a very able Member of this Committee. Do you have a statement?

STATEMENT OF HON. CHRISTOPHER S. BOND, A U.S. SENATOR FROM THE STATE OF MISSOURI

Senator BOND. Mr. Chairman, I will just submit a brief statement for the record later on.

I want to make a couple of comments and perhaps ask for some guidance from my good friend Jim Abdnor and Mr. Vautour. I would like to say first, Jim, I am delighted to hear you say that you have been working with the National Governors Association and rural development councils and others, because I think it is extremely important, if we talk about rural development, that we not overlook the people who have been dealing with rural development and who are concerned about economic development every day.

Over the past month we have been marking up a rural development bill in the Agriculture Committee, and I believe we are going to begin to pay a little bit more attention to the existing governmental structure, because we have found in our State of Missouri that we can be far more effective when the existing programs at the State and local level are coordinated.

So, I commend you for working with the NGA, I think that is a good step.

One of the things that we have found to be effective in Missouri in bringing jobs and job opportunities to depressed rural areas has been the rural enterprise zones. Have you all had an opportunity to take a look at how they operate, and do you have any suggestions on the rural enterprise zones?

Mr. ABDNOR. We have looked at them. I do not think we have done much with them yet. Our people are researching it, particularly over in our data bank. But we need to do more in that area, too.

Can I just say one thing? We do not want to undersell the initiative of the individuals and the people if you give them a chance. I mean, a lot of people solve their own problems.

Money alone is not going to solve everything, even solving problems of infrastructure. In South Dakota, the Governor raised the money to buy railroad tracks in South Dakota to keep the railroad going, and he has got it working, with your help.

We went out and got an appropriation with the National Railroad Authority, and we bought up the Milwaukee line that went off to Montana, so we can get our stuff out to the west coast. It made a tremendous difference.

The point is that it is tough, but I have enough confidence in people, if we encourage them and give them the help and show them the programs we have. Maybe we have too many of the darned things.

That is why I say we ought to have an oversight committee. About seven or eight agencies have money for the same programs, and I think it is high time we see what we have on the books.

Senator BOND. Well, maybe we ought to take a look at that before we launch a whole new set of programs. In agriculture, in the agricultural area, certainly I know there is a continuing problem, there is a continuing need for jobs in rural areas.

You discussed the transportation problems that Montana faces, and they certainly are present in other areas. Infrastructure is a problem. What would you say in terms of priorities that your agency can focus on are the greatest areas of help?

Where do you get the biggest bang for your buck? How can you do the most to encourage the development of good continuing private sector jobs in rural areas?

Mr. ABDNOR. Senator Bond, before you came in here I was relating about our 10 hearings on rural problems, and how they broke down into eight different categories, all the summaries of all the meetings, like financing, education, employment and all.

And how at SBA we have finance programs. We have the small business investment companies that help with venture capital. We have the community development that goes along with it. We have the 7(a) individual loans. We have the minority program.

But other than that, we have a lot of consultants. We have SCORE, Senior Corps of Retired Executives, 12,000 of them working for nothing but their bare expenses. And counseling and management are the most important things you can do.

We have outreach programs. We have the SBI, we have the SBDC, we have all these groups. We can bring them together and point them in one direction. We have marketing. We are helpful in that area.

Senator BOND. This is interesting. You are talking about providing them the know-how, and I think we have discussed at a previous session, I have been working in rural development from the State end for 15 years and had the opportunity to work on behalf of the Organization for Economic Cooperation and Development with other countries.

And from England, the people tell me that the most important thing they can do for the small businesses in rural areas is to provide the technical expertise, the kind of assistance the SCORE executives give. Somebody who has a good idea to manufacture something needs help on financing it, on marketing it, on transporting it, on packaging it.

And they have said that far and away above financing, above any other assistance they can provide, that is the most important.

What percentage of your budget, what percentage of your efforts, would you say would be devoted to that kind of technical business assistance?

Mr. ABDNOR. Well, counting all our counseling meetings and the money for the SCORE and $40 million to the SBDC's and all the others, a good portion. I can give you those figures.

[Material follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

AUG 29 1988

Honorable Christopher Bond
United States Senate
Washington, DC 20510

Dear Senator Bond:

I appreciated the opportunity to testify before the Rural Community and Family Farm Subcommittee of the Senate Small Business Committee on July 13, 1988, and was pleased that you were able to participate. You have been a champion of rural economic development for many years, and I have the greatest respect for the leadership you provided in the State of Missouri while you were Governor. Today we in Washington are facing a real challenge to do everything within our power to help the states address rural needs, and I am honored to work with you on their behalf.

During the July 13th hearing, you commented that training and counseling for small business owners is one of the most important services we can offer rural communities. I could not agree with you more. You also asked me for information about the proportion of our efforts at the U. S. Small Business Administration (SBA) devoted to working with current and prospective business owners.

Our total permanent employment at SBA is slightly over 3,600. Approximately 10 percent work in programs to counsel and train business owners, but only about 50 are located in the Washington Central Office. Our business development activities encompass several programs staffed by generalists as well as specialists in International Trade, Veteran's Affairs, Women's Business Ownership and Minority Business Opportunity. All of these rely predominantly on volunteers, state government, local chambers of commerce, and colleges and universities to assist in delivering most of the SBA's business management advice and conferences.

The Agency acts as a "wholesaler" of programs and services, using its limited resources to leverage a greater amount of knowledge for small businesses from our "retailers" throughout the Nation. For example, this year on a budget of only $2 million, the Service Corps of Retired Executives (SCORE) will pay travel and expenses for 12,500 volunteer counselors to give advice to almost 400,000 business clients. The Small Business Development Center program, funded at $40 million, is a cooperative effort with the states and the educational community. Their 52 SBDCs with satellite centers at over 500 locations nationwide will assist over 250,000 clients this year. About 7200 cases will be accepted for in-depth assistance through our Small Business Institute program, funded at $2.7 million, which uses senior and graduate business students. Through the 7(j) Program, $9.1 million will be provided this year to organizations delivering technical assistance to minority small businesses.

SBA also has nearly 75 written guides and business management publications which are distributed to enhance and supplement our training and counseling services. We are finding creative ways of leveraging a $350,000 budget to provide the most assistance possible with limited resources. For example, our Exporter's Guide to Federal Resources for Small Business was supported by a contribution from American Telephone & Telegraph Company, and our upcoming Guide to Federal and State Resources for Rural Economic Development is a contribution from the Southwestern Bell Telephone Company.

I am enclosing additional information about our Business Development programs, and would be glad to answer any further questions you might have.

Sincerely,

James Abdnor

James Abdnor
Administrator

Enclosure

cc: Honorable Max Baucus
United States Senate
Washington, DC 20510

Senator **Bond**. Thank you.

Mr. **Abdnor**. I went to the governors conference about 8 months ago in Illinois, and I think I shocked the pants off them. I said we are not here to tell you what to do; we just want to be here to help you if you want our help.

Governor Branstad did a tremendous job with rural development in Iowa when he formed his rural development committee. But I said, do you happen to have anybody on your committee from the FmHA? Do you have anybody on that committee from small business or one of these other agencies, just to advise you and tell you what they have?

And he said, no, he did not.

Senator **Bond**. We had Bill Powell on our rural development task force.

Mr. **Abdnor**. That is great, because there is help to be had if those people would use them. It is as much our fault as anybody by not making ourselves more available to them.

Senator **Bond**. I thank you for the time you have given us.

Senator **Baucus**. I thank you both very much.

[The prepared statement of Senator Bond follows:]

SENATOR BOND

STATEMENT - 2:00 HEARING

SMALL BUSINESS COMMITTEE

MR CHAIRMAN I WANT TO THANK YOU FOR HOLDING THIS HEARING TODAY. I BELIEVE THAT BOTH THE FMHA AND THE SBA HAVE MADE THE CONSCIOUS DECISION TO MAKE RURAL DEVELOPMENT A HIGH PRIORITY AND AM PLEASED TO HAVE THIS OPPORTUNITY TO COMMEND JIM ABDNOR AND UNDERSECRETARY VATOUR FOR THEIR EFFORTS.

I APPROACH THE ISSUE OF RURAL DEVELOPMENT IN A HOPEFUL AND CONSTRUCTIVE WAY. IN THE MANY MEETINGS MY STAFF AND I HAVE HAD WITH PEOPLE AROUND MISSOURI IT IS CLEAR THAT RURAL COMMUNITIES NEED SOME HELP. TRAINING, INFRASTRUCTURE NEEDS, PROVIDING TECHNICAL BUSINESS EXPERTISE, AS WELL AS SOLVING THE CREDIT GAP ARE THE PROBLEMS I HEAR OUTLINED AGAIN AND AGAIN. IN ADDITION, BETTER COORDINATION AND DELIVERY OF EXISTING PROGRAMS ARE OF GREAT CONCERN.

AS THE CHAIRMAN KNOWS, THE AGRICULTURE COMMITTEE HAS BEEN WORKING ON A SCALED DOWN RURAL DEVELOPMENT BILL WHICH I STILL HAVE HIGH HOPES ABOUT. WHILE THE BILL DOESN'T ADDRESS MANY OF THE BASIC PROBLEMS FACING RURAL COMMUNITIES, I BELIEVE WE HAVE A CHANCE TO PUT TOGETHER A FIRST STEP PACKAGE WHICH WILL STREAMLINE CURRENT PROGRAMS, PROVIDED BETTER STATE AND LOCAL COORDINATION, AND OFFER MORE FLEXIBLE FINANCING PACKAGES TO SMALL TOWNS AND BUSINESSES.

MR CHAIRMAN, I HAVE BEEN INVOLVED IN RURAL DEVELOPMENT ISSUES FOR THE PAST 15 YEARS, AND BECAUSE OF THOSE EXPERIENCES HAVE FAIRLY STRONG VIEWS ABOUT WHAT IS AND ISN'T NEEDED. FIRST AND FOREMOST WE MUST INCLUDE STATE AND LOCAL GOVERNMENTS IN ANY SOLUTION -- BECAUSE

THE SOLUTION DOES NOT LIE IN SIMPLY CREATING NEW FEDERAL PROGRAMS, OR IN WRITING NEW ELIGIBILTY STANDARDS FOR THE B & I OR SBA PROGRAMS. WITHOUT THE COORDINATION OF STATE AND LOCAL OFFICALS THESE EFFORTS ARE DOOMED.

HOWEVER, WE MUST ALSO REALIZE THE SOLUTION DOES NOT LIE IN JUST WRITING CHECKS TO THE STATES. SOMEWHERE IN BETWEEN IS THE BALANCE AND I HOPE CONGRESS WILL BE ABLE TO FIND IT.

MR. CHAIRMAN, RURAL DEVELOPMENT IS A VERY IMPORTANT ISSUE AND I LOOK FORWARD TO THE TESTIMONY WE WILL BE HEARING THIS AFTERNOON.

Senator BAUCUS. Our next panel is Ms. Faye Wood, manager of Woods Powr-Grip, Inc., of Wolf Point, MT, and Mr. Glen Pulver, professor, Department of Agricultural Economics, University of Wisconsin-Madison, Madison, WI.

We are very happy to have you here. Now is your opportunity to tell us what it is really like, what a small businessperson actually faces, and what some of the practical problems are, and perhaps what some of the practical solutions might be.

STATEMENT OF FAYE WOOD, MANAGER, WOODS POWR-GRIP, INC., WOLF POINT, MT

Ms. WOOD. I am very happy to be here. I am very honored to have been chosen to come and tell my story to you and be on record.

The first thing I think I need to do is to tell people what rural America is, because I tell people I am from a rural area and they tell me where they are from and they think it is rural. And the only way I could do that is with maps.

Senator BAUCUS. That is an excellent point. I run into that problem over and over and over again.

Ms. WOOD. Right. And you are from the populated part of the State.

Senator BAUCUS. I know.

Ms. WOOD. But anyway, my name is Faye Wood and the company I represent is Woods Powr-Grip, Inc. We manufacture vacuum lifting equipment. We employ 56. Fifty of those people are full time and six are part time. One is a retired person and works until his social security maximum is met; three college students and two high school students at the time.

And we are very honored to have been able to provide jobs for college students while they are working their way through school, because there are not that many opportunities for these young people in a community such as ours.

We produce a product that is sold around the world and across the United States. Our company began in 1962 in Wolf Point, MT, when Howard Wood, my husband's father, invented a small tool to help auto mechanics. The same principle has been applied to larger tools and equipment. At present, we provide tools and equipment for lifting ounces to tons.

We employ as many local people as possible, and we are one of the very few Montana companies that provide jobs for young technical persons, such as engineers, draftsmen, machinists, photographers, designers, and welders, and particularly aluminum welders, and that is a real specialty.

Now, if you would please refer to your packet, there is a map in there showing the United States. And I would kind of like to use it in several ways. One is our location. The other is where our vendors are located and also our market area is.

Montana—Wolf Point, MT, is located in the northeast corner of the State. It is about 60 miles from Canada, 80 miles from North Dakota, and we have about 3,000 people in our town.

As you can see by the map, it is not close to any city and it is not close to any metropolitan area. As a matter of fact, the closest city to us is Regina, Saskatchewan, which does not do us any good.

Senator BAUCUS. How far is that?

Ms. WOOD. 210 miles.

We are beyond rural. We are into isolation. And we do not really live at the end of the world, but you can see it from where we are.

The next town to the east is 20 miles and it has about 1,500 population. To the west we have two very small communities, but it is 50 miles to the next town and the population there is 4,000. We think that is a big town.

There is one town between Wolf Point and the Canadian border. It is 1,500, and that is where Congressman Ron Marlenee is from. It is about 50 miles to the border from there.

As you can see, none of these towns are shown on this map. To the south, a town again is 50 miles and its population is about 1,800.

Wolf Point is the county seat of Roosevelt County. We are located on the Missouri River just north of what is commonly called the Missouri Break. It is very rough, rugged country.

Our main industry in our area is farming and ranching. We are also located on the Assiniboine and Sioux Indian Reservation. And yes, we are an equal employer. We do not pay any attention to religion, nationality, or sex.

We have a very good staff of employees. They are our most valuable asset, and one of the main reasons why we do not want to move from Wolf Point if at all possible.

Then, again on your map, if you will note that the United States is divided into time zones, and I often refer to Mountain Time as the lost zone because if you ever watch your TV, if there is a special movie or football—I am a football fanatic.

If you ever watch for scheduled times on games, and so forth, you will never ever see it there listed in Mountain Time. It is just the forgotten zone.

If you also check the map, you will see that west of the Mississippi River the states become quite large. Montana's population from the 1980 census was 786,690. Now that is not a city; that is the State. And our area is 145,388 square miles.

That means we have about five and a half people per square mile. Now, that is not very many people to pay the taxes to maintain a State of that size.

If you will refer to the highway map, you will see that Montana has one major highway going east and west and one major highway going north and south, and a third one that drops south from the major east-west highway.

Also in your packet there is some literature to show what the products are that we manufacture. And as you view this, you will see that we use a variety of items. We need rubber, which is shipped from a supplier in Houston, TX, and we buy that in thousands and thousands of pounds. We get steel from California through Kent, WA.

The aluminum we purchase from foundries in California; brass from Ohio; plastic boxes from Iowa; other plastic components from Minneapolis; cardboard cartons, which we received a whole truck-load of just before I left, from Rapid City, SD. We have many other vendors in Minneapolis, Chicago, and Denver areas.

Our finished product is shipped to all the States, plus Canada, Mexico, Japan, Europe, New Zealand, Australia, and many other countries that we do not service directly, but they are serviced through an exporter, so we do not really know where they go.

Now, in addressing you I have been invited to answer this question: What in my view are the major problems currently existing in rural America that retard economic development, and why?

The two gentlemen previous to me touched on them very well, because they are moving products and people quickly, complying with Federal regulations, capital for expansion, finding technical people, testing of products, marketing of products, employee training and retraining. And I would like to expand briefly on these.

If a customer has placed an order with us and we have sufficient time to assemble and ship, we are fine. But it is when we have a customer in the field and their product has gone down that we have a problem.

We are in the construction industry. People are putting glass in high rises, and so forth, and they may have a crew there from a union hall. They may have 30 people on the job, and if our piece of equipment has gone down they have got 30 people they are still paying wages on.

And when they call for that part, they want it right away and we say the best we can do is second day air, they become very distressed. They seem to think we have let them down in some way and it is our fault.

And it really is not. There is not anything we can do about it. I discussed this with the UPS manager in our community, which we have the second largest UPS center as far as receiving of packages and packages sent in the State.

And the same is true if we have something that we need to get from a customer quickly because we are building a unit and we have put a deadline schedule date on that to ship. We cannot get it in to us. We cannot get it in to repair that piece of equipment.

We cannot receive items in 1 day. And everybody is going: But there is Federal Express. Federal Express ends in Billings, MT, which is 300 miles away. And in Billings, then it waits for the next available space, not the next commuter but the next available space on a commuter. Then it goes to our airport.

Then, remember we have one person working at our airport, and when that person gets off duty that person then delivers it to us. And that is Federal Express.

Some of the other ways that people—we do not even know what they are talking about when they call us and they say, please send this via. We do not even know what it is.

Another example is the material that I needed to prepare to address you today. I received a call from your office on June 30. On July 8, I had not received any material yet, so I called your office and spoke with Tamara and she faxed me the material that I needed.

The material arrived Monday. That is the Postal Service. I really feel the Postal Service should take a look at its operation, because it is becoming very antiquated.

Going back to our airplanes, Wolf Point is fortunate to have air service. We have a Cessna that comes in in the evening. It has 10 seats. Two of those are taken by the pilot and the copilot, so there is room for eight passengers. But the gal at the airport tells me if one passenger is a little overweight there is only room for seven.

Then we have another plane that comes in at noon, and it is a 16-passenger plane, and we can get our freight on that plane. It is called a Metro. We can get our freight on it. However, oftentimes there is a Metro in the State of Montana that is broke down in our airline commuter service, and it seems like Wolf Point always gets the broken one.

So when we have a piece of freight to go out, we will take it out there and we will call. Yes, they assure us we will receive a Metro. We get out there, the Metro did not come in, it was broke down.

Just before I left, we had a piece of freight sitting on the dock for two days to go out on this broken Metro. I hope it left by now.

Also, they say, well, you cannot have bigger planes because of your boarding, the number of boardings. Well, I talked to the travel agent and she said, we cannot get people on. People have to make boardings well in advance to get on.

Myself, I called the day after I talked to Tamara on the phone trying to get—I had to drive to Williston and stay overnight to get here, and I do not think I am going to get home today. I think I am going to miss my flight.

They say: You cannot have bigger planes; you do not have enough boardings. We do not have enough boardings because we have to send people just around the communities to board because we do not have enough seats. So you know, what do you do?

We do have the Amtrak and we can move people by Amtrak. But if you have a seminar to attend or a plane schedule to meet in either Minneapolis, which is the direction we usually go, you must have at least a 5 hour delay because the trains run so spasmodically, they do not run on schedule, that you just cannot count on it to be on schedule.

We can send some freight, but it is just a minimal thing that we do, only if we need to do something back and forth between St. Paul-Minneapolis and ourselves. And we do it for speed, because we can get something in two days. If we use the truck it takes 4 to 5 days.

We do not have bus service at all of any kind in Wolf Point.

Because we are so far from population centers, we often find we have trouble complying with Federal regulations. This is not because we totally disagree with all the rules and regulations given us by OSHA and the EPA. But the material sent is often very difficult to understand and apply to our business directly.

We do not have access to hazardous waste disposal services in our area, and the cost of testing the material to see what is hazardous waste and to which dumping site it should go to is often as expensive or sometimes more expensive than the purchase of the material.

We spend quite a lot of time going to meetings, and that is not meetings in Wolf Point. That is meetings all over the State, trying to figure out, how do we comply with these rules and regulations.

And when we get there we find that the information given is very general and we still are not any further ahead than we were.

We need help here. Our closest consultant in this field has just started. It is a new business. They are 300 miles away and their fee is $51 an hour plus expenses to come to us.

The meetings sponsored by OSHA and EPA will usually give a toll-free number to those who need help and assistance. But we have a little problem here in that we have the feeling that these organizations, instead of being formed with the purpose to help people, their people go out with the intent of trying to find violations and fine the offenders.

And so we feel that Government personnel should somehow change the attitude of these people so that they are there knowing that they are there to serve us and to help us, rather than to fine us.

We are not the bad guys out there. We are employing people.

If one of the regulations does not apply to our business directly, it is very time-consuming to figure out how to document it so that we do not have to comply to this rule. We do not have any service available to us, either in the private or technical sector, Government or private sector, to help us with filling in these documents.

Because of our size, one person on the payroll does several jobs, and the person that is in control of this also does the cost accounting of our product, which is a very important thing, also does the materials flow.

Regulations such as mandated leave are a burden on rural businesses because these businesses do not have access to qualified temporary replacements. Small business employers do everything possible to keep the investment of their trained labor force.

We figure it takes 1 year for a person to learn to be real effective in our business. And believe me, after we have invested a year in somebody, if they go have a baby we are not going to lay them off. We need them back.

We find ourselves in a Catch-22. Our business has grown and we have outgrown our facility. To this point, we have done all our own financing with cash generated in our own business or through small loans through our local bank. However, now we are at a growth point where we have to make a decision to survive.

Our cash-flow will not accommodate making payments on a new facility with a loan from our local bank for $1 million with today's interest rates. We have gone to our local economic development committee. And remember, that is where they said all this should come from, our local economic development committee.

Well, our local economic development committee is made up of the merchants of the town, and the merchants of the town—our town is one block. They do not understand. They say to us: Why do you not go build your own building? Well, we cannot.

There are two members on our committee that were quite concerned. One was a banker and one was a chamber of commerce executive, and they dug into it a little farther for us.

They found that the grants available in Montana were about $370,000 at a maximum level, but when they were awarded they are only awarded, say, $150,000 to $250,000, which is not enough. It is not enough to help us buy the money that we need.

So we are looking for a source of finding funding. We have been approached by several other communities within the state and several other states, South Dakota being one that we were approached by.

We have also been approached several times to be bought out. And we asked the question: If you buy us out, will you maintain this facility? And they say: Absolutely not; we will close it down and move the business. And one of them was in Massachusetts.

So we would lose the whole thing in Montana.

We do not want to leave because by leaving we are going to leave many families jobless, because these are hometown folks and they will not move. Someone noted living in a small town such as ours is really difficult because you cannot even go for a walk for exercise, because everyone knows you and they all stop and offer you a ride.

Wolf Point is only six blocks wide and it is only a mile long. And when people say, do you know where your children are tonight, we can say yes, we do, we know where they are.

As I stated in the first part of my presentation, we provide jobs for young technical people. It is difficult for a new graduate to find work in Montana. Because of this, education has become one of Montana's greatest exports. Companies want to hire these young people only when they have work references, and we are one of the companies that provide work references.

However, we would like to make a statement to colleges: Please stop inflating the job opportunities for young people. They want job opportunities to look like they are all going to Disneyland, they are going to live in the ultimate situation.

Oftentimes this makes it very difficult for us to hire new people. When we do hire a young person—and we like to hire young people because when they come from college they are so filled with enthusiasm and they are so ready to prove themselves that they will do things that people say cannot be done. They will just do it.

Senator BAUCUS. Faye, before you continue, I know you have a 4:15 plane and I can arrange to have you driven to the airport so you can make that plane.

Ms. WOOD. OK.

Senator BAUCUS. I do not know how much longer your prepared testimony is. If you want to find a convenient point to summarize, then we might have a question or two and you might have an additional observation or two, so that you can catch your plane,

Ms. WOOD. OK. Basically what I am stressing from here on is that we need facilities for providing assistance that, if you lived in an urban or metropolitan area, would be there available to another company that was there.

We have to provide our own testing and development, advertising, marketing. We have to provide all of those services because they do not exist. They do not even exist efficiently within the State of Montana.

We have tried two different marketing and advertising agencies, one in Great Falls and one in Billings, our two populations—our two largest cities. And they could not handle a manufacturer's needs. They thought they could, but they just could not. What we are doing for ourselves is better than what they were doing.

We need help in training, just daily everyday things. We went on a bookkeeping system on the computer in 1986 in October. And we can hire consultants to come in and train us for $400 to $450 a day plus expenses. But if you have ever tried to learn anything within your office situation, you will know that that is lost money.

We did find a seminar that we went to and it cost—for two of us to go to the seminar itself, it was $198 for 2 days for two. We had a whole staff of people and other people's questions that helped us gain a lot of knowledge.

We would like to stay where we are. We like the community. It is a great place to raise a family. The labor force is dependable, they work hard, and we would just like to stay there.

I do feel that we do need some help in education. We need education for us, the management, and we need education for the community and community development type situations, how can it be done, what programs there are available, all those kinds of things.

And in preparing for this, I was very, very surprised to learn, because I did not know this—this is an education in itself for me—that small business, rural small business, comes under the Department of Agriculture. That is just shocking to me.

That is like asking a rancher to board his sheep for a year. You just do not do that. Yes, they are two businesses, but they have so many conflicts. Their interests are not ours.

[The prepared statement of Ms. Wood follows:]

Testimony
on
Rural American Business

by

a rural American

Good morning Senators. I am Faye Wood of Wolf Point, Mt.. I am honored to have been chosen to be here with you today to represent small business in rural America. I would like to share with you some of the operational problems we have because of our location in hopes that this committee on Small Business can help make our frustrations a thing of the past and enable us to operate on the same level as our competitors that live in a more urban area. I am sure that some of the problems I will express are also shared by other small business, even those located in metropolitan and industrial areas

The company I am representing is Wood's Powr-Grip co., Inc.. We manufacture vacuum lifting equipment for materials handling. We employ 56 people, 50 full time and 6 part time. Of the part time we have one retired person, 3 college students and 2 high school students. We are proud to have been able to provide summer jobs for college students. The product we manufacture is sold across the U S and around the world. The company began in 1962, when Howard Wood, my husbands father, invented a small tool to help auto mechanics. The same principal has been applied to larger tools and equipment. At present we provide tools and equipment for lifting ounces to tons. We employ as many local people as possible and we are one of the few Montana companies that provide jobs for the young technical person such as engineers, draftsman, machinists, photographers, and designers.

Please refer to your packet of information. There should be a map of the United States. I would like to use this map as a visual aid to help me explain to you our location, vendors and our market area.

Wolf Point is located in the Northeast corner of the state of Montana, (60 miles from Canada and 80 miles from North Dakota) the town population is about 3,000. As you can see this is not an area close to any city or metropolitan area. We are beyond rural we are into isolation. We don't really live at the end of the world, but you can see it from there. The next town to the east is 20 miles and has around 1500 population. To the west we have 2 very small communities, but it is 50 miles to the next town and the population is around 4000. There is one town between Wolf Point and the Canadians border of about 1500 population and it is 50 miles to the north. As you can see none of these towns are shown on this map. To the south the first town is again 50 miles and the population is about 1800. Wolf Point is the county seat of Roosevelt county. We are located on the Missouri river, just north of the area called the Missouri breaks. The main industry in our area is farming and ranching. We are also on the Assiniboine & Sioux Indian Reservation. Yes we are an equal opportunity employer, we do not determine if a person can do a job by his religion, sex, or nationality. We have a very good staff of employees, they are our most valuable asset and one of the main reasons we do not want to move from Wolf Point.

Please note that this map is divided into time zones. Our state resides in what I jokingly call the forgotten time zone. As an example during baseball, football, and basketball season the televised games are listed on your TV screen or in your TV guide. Please remind me of the last time you were informed of when these events were to be televised in Mountain Time. If you check the size of the states west of the Mississippi River. We have lots of space out in our country and not very many people.(Montana's population 1980 census: 786,690 and land area: 145,388 sq. miles. We have less than 5 1/2 people per square mile). If you will refer to the Interstate Highway map, you will see that Montana has one major highway going east and west, one going north and south, and a third that drops south.

Also in your packet you should find some literature on the items we manufacture and how they are used by our customers. We find it very difficult to explain in words what we manufacture. While you are viewing this literature, I would like to point out that we buy raw material, do all the machining process and assembly into the finished product. Therefore we buy the materials we need from many areas in the United States. The rubber we mold is shipped from a supplier in Houston, TX; steel from California through Kent, Washington; aluminum from California foundries; brass from Ohio; plastic boxes from Iowa; other plastic components from Minneapolis; cardboard cartons from Rapid city, South Dakota, we have many other vendors in the Minneapolis, Chicago and Denver areas. Our finished product is shipped to all the states shown plus Canada, Mexico, Japan, Europe, New Zealand, Australia and many other countries that are serviced from an exporter and we do not always know the actual destination of our product.

In addressing you I have been invited to answer this question: (1) What, in my view, are the major problems currently existing in rural America that retard economic development and why?

The major problems are:

(a) Moving product and people quickly
(b) Complying with federal regulations
(c) Capital for expansion
(d) Finding technical people
(e) Testing of product
(f) Marketing of product
(g) Employee training & retaining

I would like to expand on these briefly. (a) Moving product. If the customer has placed his order for product and we have allotted the time necessary to get it to the customer, we have no problem, we have learned how to handle transportation of goods to customers. The problem arises when we need to provide customer service. If a customer needs to replace a part, and due to high cost of construction, needs it immediately the best we can do is second day air. I discussed this issue with the manager of our United Parcel Service(UPS) and he stated that several of his other customers were in need of a faster service that 2nd day. Our customers are often crushed by this delay not only financially, but they feel we have let them down in some way. The same is true if we need a part that is a one time purchase and we need it quickly, because the customer is waiting. We can not receive items in one day, even by Federal Express. Federal Express comes as far as Billings, MT. There it stops and waits for the next available space on a commuter plane and is delivered when the airport attendant leaves work for the day. Another example is the material I needed to prepare to address you today. It was mailed June 30 and I had not received it yet on July 8th. When I called Senator Baucus' office to express my dismay, Tamara sent the information needed via FAX. Perhaps the postal service should review their operation, as we in the business world are working around them using the telephone and other ground carriers because the postal service is so slow. Their services are becoming cost prohibitive. We do have air service to Wolf Point for which we are very grateful, however the planes are too small and are inadequate to handle our product. Wolf Point is scheduled to have a Cessna (8 seats counting the pilot and co-pilot which leaves room for a maximum of 6 passengers) from Billings in the evening which overnights and leaves first thing in the morning. It is very difficult to get a seat on this plane because space must be reserved so far in advance. If a sudden trip comes up the planes are filled. The second plane on the schedule a Metro (16 passenger) comes in at noon. This Metro is big enough to handle almost all the freight we have. However, we always seem to get the broken Metro which is replaced for that flight by a Cessna, which is again too small to fill our needs. I visited with the local travel agent and she stated it is very hard to find seats for bookings not made well in advance (w/in the week) and the same for the late flight leaving Billings to Wolf Point. She sends many customers to Williston and Minot. Here is another example of the catch 22, the airlines does not want to give us a bigger plane because we do not have enough boarding, we send people to other communities to board because we do not have seats. I drove to Williston and stayed overnight to get here for this very reason. If we do not have adequate air service we will have to relocate. As we grow this becomes more and more a part of our business to be able to move people and product.

We do have the Amtrak in Wolf Point and we do use it as a people mover. However, Amtrak can't be relied on being anywhere on time as shown in their schedules. For freight it is not an alternate source of transportation at this time if the destination is other than Minneapolis/St. Paul. We have only used this service on occasions when we need to receive a small part of an order and we need the speed as it only takes 2 days on the train and it takes 4-5 days by truck from Minneapolis.

We do not have a bus service of any kind to Wolf Point.

Because we are so far from population centers we often find we have trouble complying with federal regulations. This is not because we totally disagree with all the rules and regulations given us by OSHA and EPA, but the material sent is often very difficult to understand and apply to our business. (1) We do not have access to hazardous waste disposal services in our area. (2) The cost of testing material to see what liquid waste is hazardous waste and what disposal site it needs to be sent to is some times as high as the cost of the original material. (3) We have spend quite a lot of time attending meetings to find out how to comply, only to find the meeting information very general and not as clear as we had hoped. Our closest consultant in this field is 500 miles away and their fee is $51.00 hr plus expenses. (4) The meetings sponsored by OSHA and EPA will usually give a toll free number to help those who need assistance. Instead of these organizations being formed with the purpose in mind to find violations and fine the offenders, they should be designed to help us learn how to comply with regulations. (5) Government personnel need to have an attitude change. Their jobs exist because of our tax dollars, and should be helping the public sector, not spreading fear and mistrust. (6) If one of the regulations does not apply to our business the process of documenting that we are not breaking any rules is very extensive. Also, we do not have the chemists and other technical personnel, private or government, available to us in our area. One of our employees has the job of keeping all of this information and making sure we are not breaking any rules. Because of our size this same employee also does two other major functions cost accounting of product and materials inventory control.(7) Regulations such as mandated leave are a burdeon on rural business because these business do not have access to qualified temporary replacements. Small Business employers do everything possible to keep the investment of their trained labor force.

We find ourselves in a catch 22 situation. Our business has grown and we have outgrown our facility. To this point we have done all our own financing with cash generated in the business or small loans from our local bank. However, we are now at a growth point where we have to make a decision to survive. Our cash flow will not accommodate making payments on a new facility with a loan from our local bank for one million with today's normal interest rates. We have gone to our local economic development committee. Remember we are a manufacturer and our local economic committee is composed of local merchants (our main street is one block). Their main question is why don't you build your own building? Two members of the committee (Banker & Chamber of Commerce Ex.) found that even in applying for grants there would only be $370 thousand available to a business such as our in our state. This is not an adequate amount as the building we need has been estimated to cost $1 million. To this point we are still looking for a source of funding a new facility. We have been approached by several other communities within the state and in other states to move our business. Perhaps we are fools for not wanting to move as any large corporation would. But we would leave many families jobless, as they would not follow, we like where we are our town is like a family. Someone noted the other day our town is so small it is hard to walk for exercise, because everyone knows you and they all offer you a ride. Wolf Point is only 6 blocks wide and 1 mile long. When asked do you know where your children are tonight, we can usually answer yes.

As I stated in the first part of my presentation, we provide jobs for young technical people. It is difficult for a new graduate to find work in Montana and because of this education has become one of Montanas major exports for many companies want to hire only those people who have work references and have been able to prove themselves in the area in which they were college trained. We provide this service for these new graduates. We like the new college graduates for several reasons, one they are eager to prove themselves and are willing to try new inventive ideas. Often someone that has been in the work field for several years feels there is only one way to do things or that a thing can not be done. But what we have trouble with here again is an attitude problem placed in the college students mind by their respective college. They inflate the starting wage to the students and give them such great expectations as to starting wage and job opportunities. This gives those of us operating from a rural areas a tough time finding young people willing to live in a rural area.

The product we build needs to be run through several different kinds of tests for strength and adaptability. Because we are so far from population centers we do not have an easy access to any such facility. We do all the testing of product that we can on site and rely on customers to provide the rest. The product we manufacture is used a great deal in a high risk industry, installation of glass. Therefore we run a high risk of being sued for any reason an end user may like. We feel we make the safest product in the market place today and are always striving through product development to make it even safer. It would be a great help if the Federal Government could set some reason and consistency to liability insurance situation. Our insurance has cost us $100,000 each year the last two years and we only have two million coverage. It is a constant concern that someone out there could put us out of business tomorrow.

Another problem area that a rural businesses has, when selling on an international level, is the marketing of the product. We presently are doing our own marketing. In house we have our own advertising personnel and photographer. The photographs you see on the color literature were taken by photographers hired in local areas or some were taken by photographer of our customers and we acquired the photos. We have tried two advertising marketing agencies in the state of Montana and they were not able to develop a better marketing strategy than we are doing ourselves. We can see that the capabilities are out there to better promote and inform end users of our product. Here again we come to a part of the catch 22 situation I talked of earlier. If we grow we need more space, if we grow we need more capital for raw material and wages. While we are in need of providing more jobs to grow we need more space, we need more capital for space.

Here I would like to add a little more information about our company policy. We like to reward our better employees by promoting them to supervisors or management as our company grows. This presents a special problem no one told them the difference between being a worker and supervisor of a worker doing the work they know how to do. So the training and retaining of our own people is a problem. The closest seminars for such things are 300 miles away. We have tried using these seminars, but without all supervisors hearing the same thing and setting up a working program together, it does not work. It would be advantageous to rural businesses if training could be provided, customized, at a reasonable cost to that business.

Another example of this training is computer training on new programs and systems. When a company is small, the staff is barely large enough to get the normal work load done. To learn something new puts everyone behind and sometimes is just not cost worthy to do so. We have been on computers for 2 years in our bookkeeping system. We purchased our software from an agent almost 500 miles from us. His staff stayed long enough to get us installed and give us the bare basics. Believe me is it has been fun getting out a weekly payroll when every week brings a new challenge. We were finally able to attend a seminar this past month on the system. The software company is located in Salt Lake City, UT. It would cost us $400 to $500 a day plus travel expense for one of their consultants to come to our office to help us learn what we are doing. Two of us went to Seattle (via Salt Lake, because that is how we go to get to Seattle, and we drove to Billings 300 miles to get that flight) for two days of uninterrupted learning from a staff of people and the seminar cost $198.00 for two people for two days plus our travel expense.

Things we like: Good location for raising a family
Labor force dependable and labor rates competitive

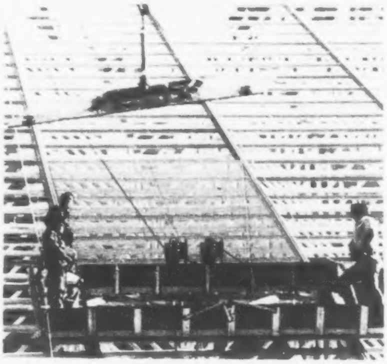
Because of our location in rural America we have found it necessary to provide for ourselves much of the skills that another company would go to an outside source.

Vacuum Lifters

to solve the glass handling problems of tomorrow...

...are coming off the drawing board at POWR-GRIP

TODAY!



Wood's Powr-Grip Co.

800-548-7341

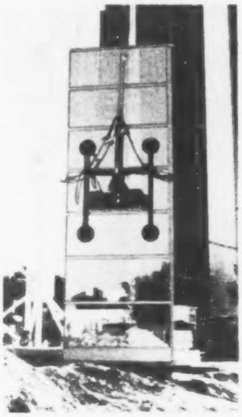
Sold only through authorized dealers

POWR-GRIP leads the way in three key areas of glass-handling!

Overhead glazing photo courtesy of Regal Manufacturing Company

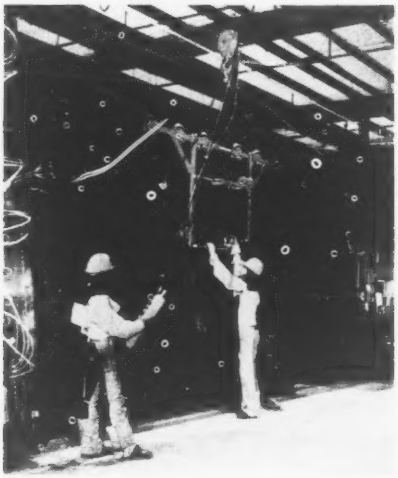
Installation

From handset skylights
to half ton window walls,
the name to remember is
Powr Grip. Powr Grip
offers a full range of
glass handling equipment.



Large Glass

Large glass handling is made easier with Powr Grip's "Jumbo" lifters. Our flexibility in frame designs place support and stability where it is needed most for safe handling. Custom designed units also are available for your special handling needs.



Production

When time is money, production line vacuum lifters must be both functional and fast. Powr Grip's C Frames for reaching inside the crate, as well as tilters, rotators and combination units, put economy into your production.

POWER ROTATOR TILTER

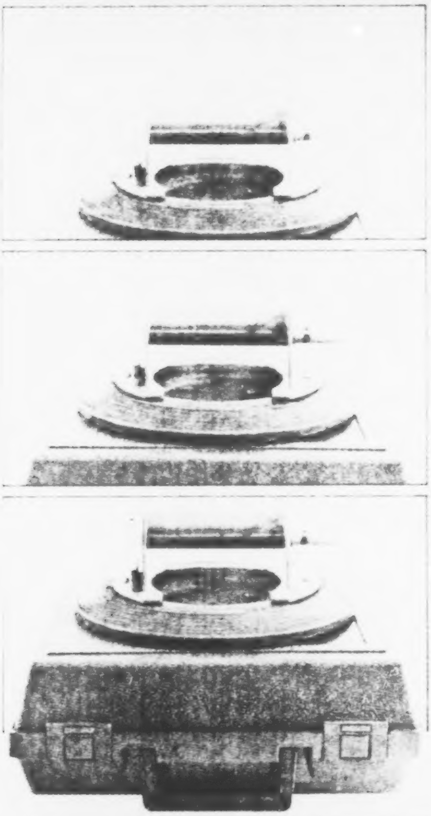
C-FRAME with POWER TILT

[illegible]

POWER ROTATOR

[illegible]

VACUUM EQUIPMENT FOR MATERIALS HANDLING



All sizes, styles and capacities.

Vacuum cups and pads, molded and fabricated, from ¼-inch dia. to 700 sq. in.

Power systems include: *Manual*, spring-balanced pumps with red-line vacuum level indicators. *Electric*, pumps in most standard AC/DC voltages. *Air*, quick-action Venturis (vacuum generators) or Powr-Grip's patented air-miser pump.

Specialists in the manufacture of vacuum lifting equipment since 1964, Powr-Grip has developed a broad range of *standard* tools and equipment, plus an engineering staff dedicated to making vacuum do your special materials handling job better.

For information, call:

Wood's Powr-Grip CO., INC.
[illegible]
WOLF POINT, MONTANA [illegible]

1-800-548-7341
1-800-548-9737

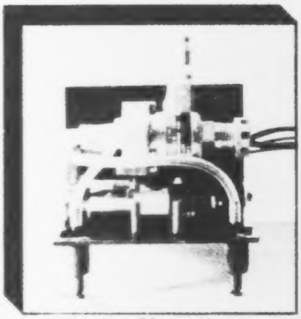
LOOK AT THE WAYS WE PUT VACUUM TO WORK

Bulletin 12/87 15

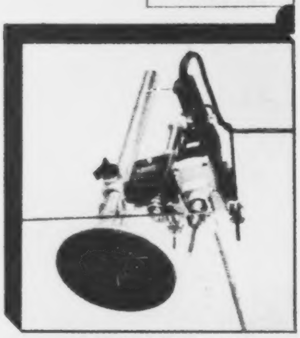
POWR-GRIP

LIFT **MOVE**

package hard-to-handle tubes



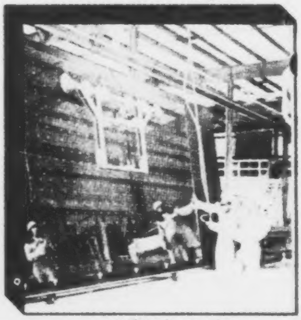
... "hand" for robot



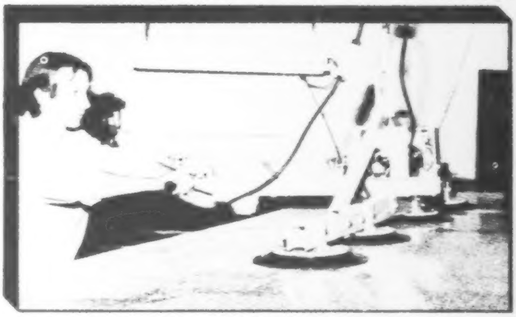
anchor drill on glass

seat engine valves

load and empty assembly lines



position large glass



stack sheet metal

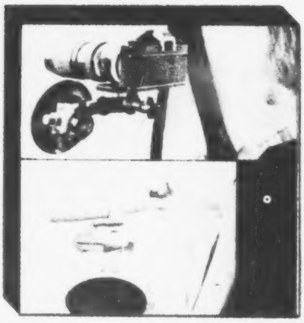
. . . lift porous materials.

VACUUM SYSTEMS

GRIP

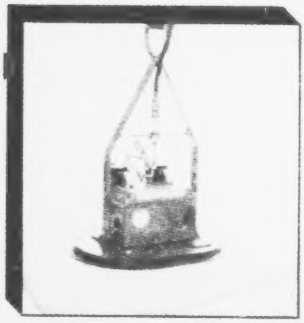
HOLD

handle marble slabs

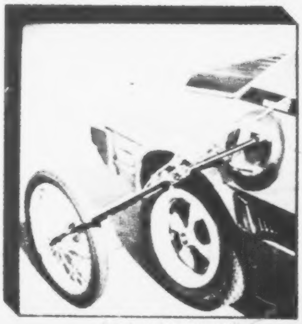


mount cameras and scopes

carry awkward appliances

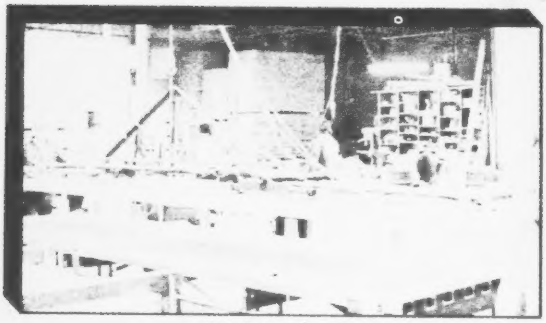


move stone slabs



check miles per gallon

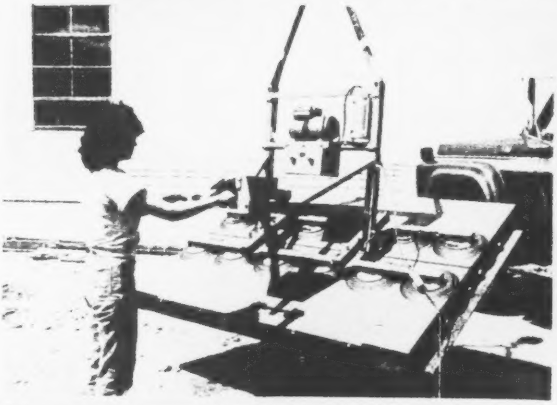
tow disabled boats

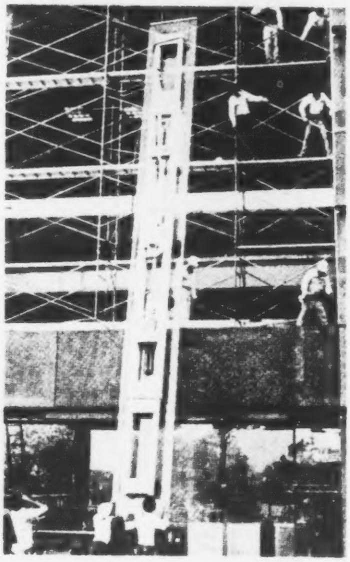


stack formica-faced panels

identify special vehicles.

POWR-GRIP CAN HANDLE IT!





For design information and price estimates, call toll free:

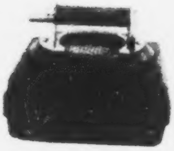
1-800-548-7341 or 1-800-548-9737

Wood's Powr-Grip CO., INC.

233 Cascade, Wolf Point, MT 59201
FAX (406) 653-3136
Telex 364412 INTR 334

Vacuum Cups

7 Models 4 Sizes
Capacities from 75 to 175 lbs.



8-Inch

The 8-inch vacuum cup is now accepted world wide as a standard tool for handling glass. Available with either metal or Lexan handle/pump assembly.

10-Inch

The concave face of the 10-inch vacuum cup gives you a "handle" on any curved surface.

TL6-FH

TL6-RH

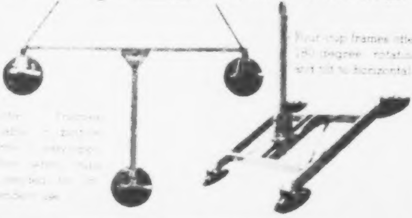
The 6-inch cup offers a choice of three types of handles: vertical, rigid or baie. Semi-concave pad for either flat or bent glass. Safe work load rating — 75 lbs.

9-Inch

A flexible edge on the 9-inch vacuum cup allows it to cope with textured material [illegible]

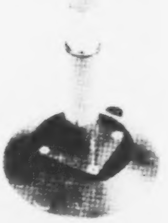
Hand Cup Frames

Capacities from 300 to 500 lbs.



[illegible]

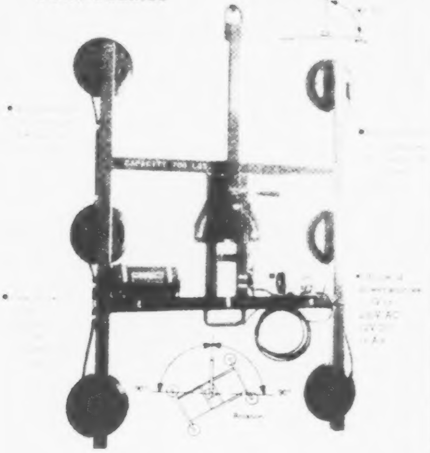
Four-cup frames offer 180 degree rotation and tilt to horizontal.



LJ6-VH

The Flexible Face of Powr-Grip

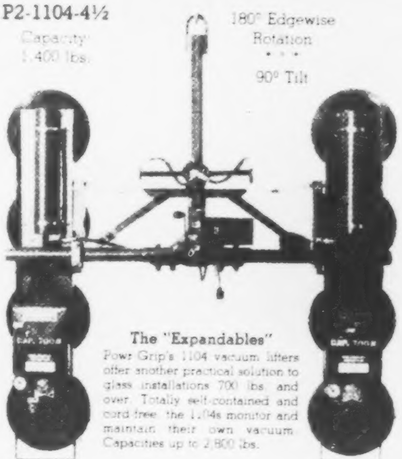
Powr-Frames



P2-1104-4½

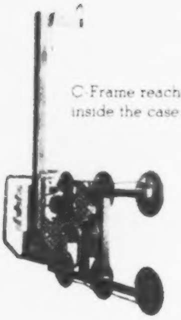
Capacity
1,400 lbs.

180° Edgewise Rotation
• • •
90° Tilt

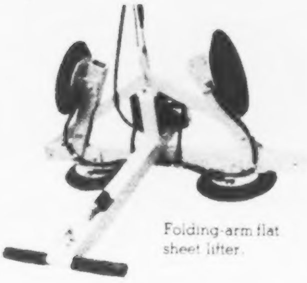


The "Expandables"

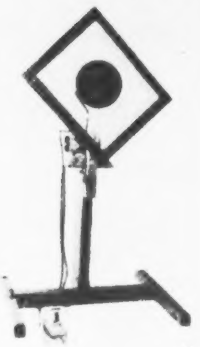
Powr Grip's 1104 vacuum lifters offer another practical solution to glass installations 700 lbs. and over. Totally self-contained and cord free, the 1104s monitor and maintain their own vacuum. Capacities up to 2,800 lbs.



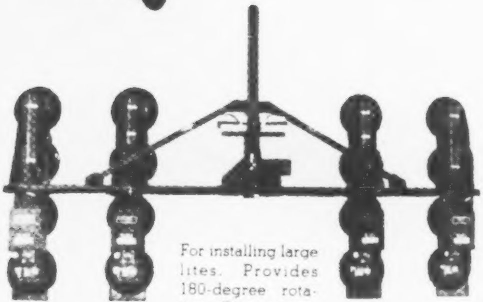
C-Frame reaches inside the case.



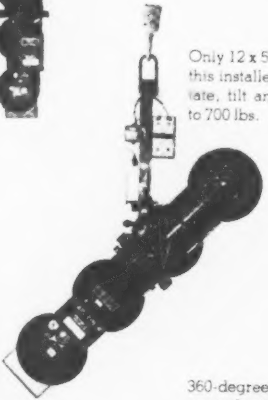
Folding-arm flat sheet lifter.



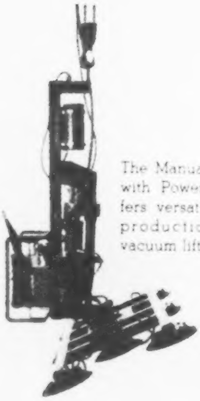
Pedestal or table-mount Positioner for framing glass.



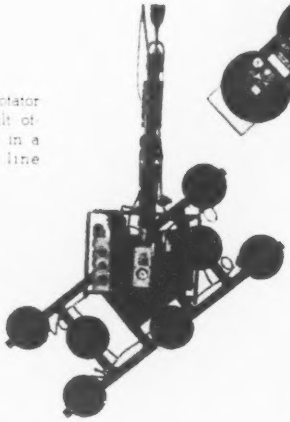
For installing large lites. Provides 180-degree rotation. Remove outside cup/pads for smaller glass.

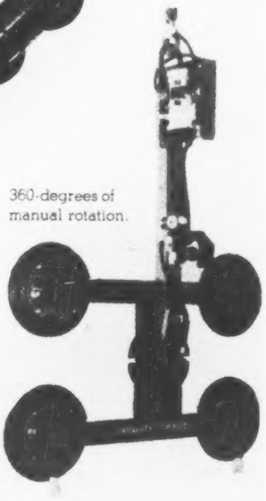


Only 12 x 51 inches, this installer will rotate, tilt and lift up to 700 lbs.

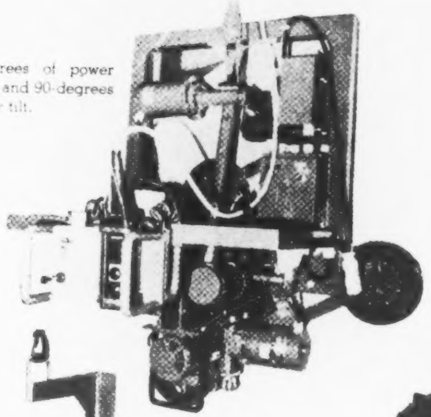


The Manual Rotator with Power Tilt offers versatility in a production line vacuum lifter.

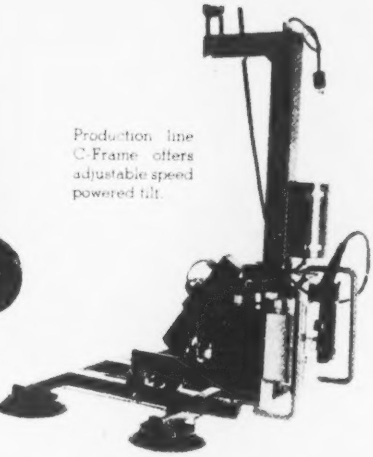




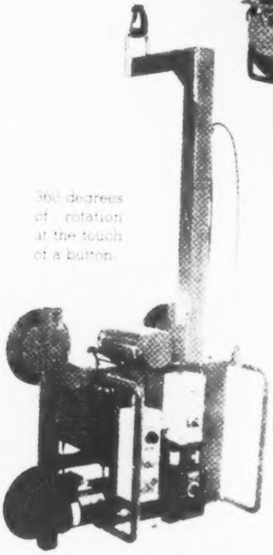
360-degrees of manual rotation.



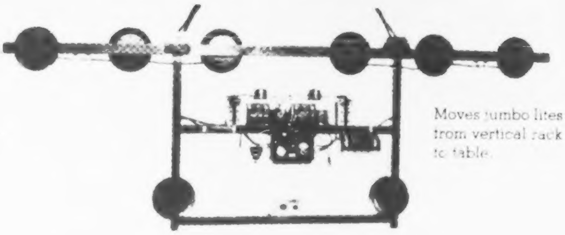
360-degrees of power rotation and 90-degrees of power tilt.



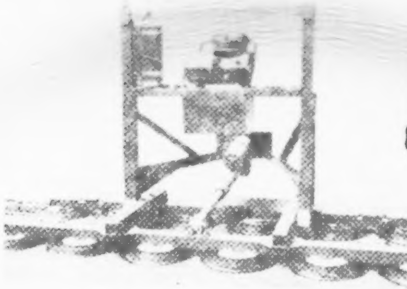
Production line C-Frame offers adjustable speed powered tilt.

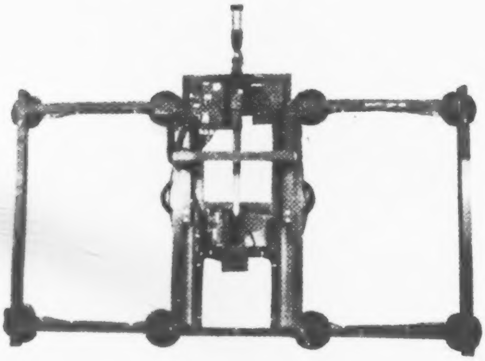


360-degrees of rotation at the touch of a button.

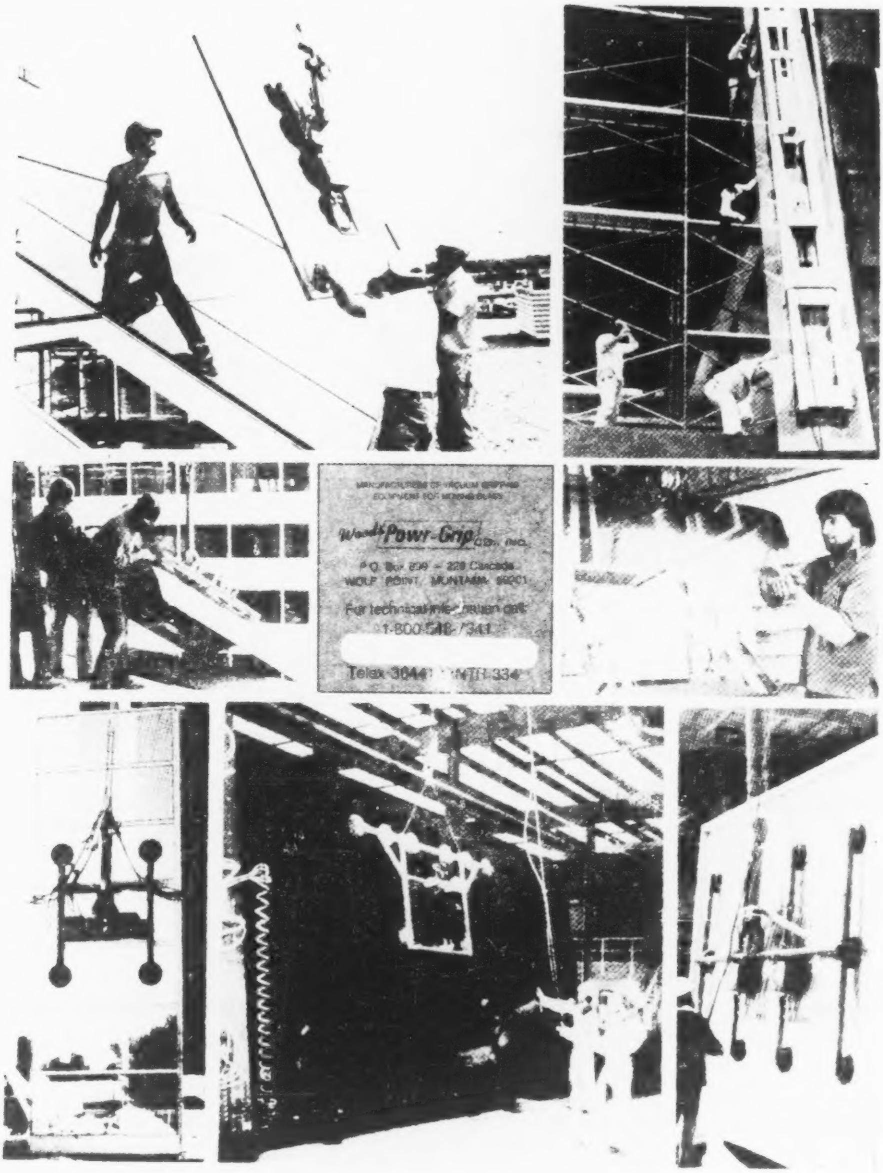


Moves jumbo lites from vertical rack to table.





Upenders with 90-degrees of vertical-to-flat power tilt. Capacities up to 2,000 lbs.



MANUFACTURERS OF VACUUM GRIPPING
EQUIPMENT FOR MOVING GLASS

Wood's Powr-Grip Co., Inc.

P.O. Box 899 — 229 Cascade
WOLF POINT, MONTANA 59201

For technical information call
1-800-548-7341

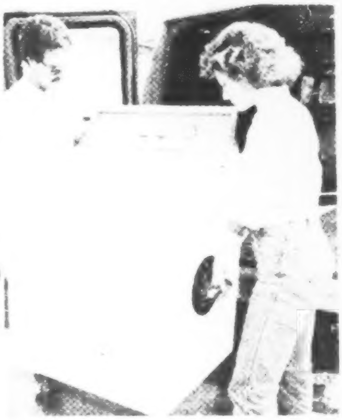
Telex 30441 [illegible] NTR 334

Wood's Powr-Grip Co., Inc. **Vacuum Cups**

The 'instant' handle for moving:

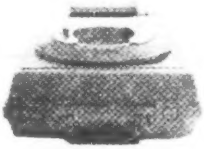
Household Appliances *Patio Doors* *Vending Machines*

File Cabinets *Windows* *Display Cases* *Metal Desks*

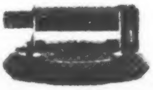


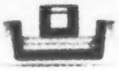
VACUUM CUPS

put the handle where you need it.



N-4950

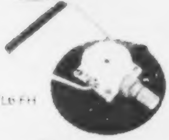




N-4000

- Easy to use.
- Low initial investment.
- Fast attach/release.
- Won't damage paint or delicate surfaces.
- Simple maintenance.
- Quick payback.
- Attaches to any flat, smooth, non-porous surface.
- TL6 and LJ6 models also adhere to curved surfaces.
- Lightweight.
- Cup capacity exceeds normal hand lift capabilities.
- Easy to check-in and inspect for damage.
- Simple, but rugged construction insures years of reliable service.
- Made in U.S.A.

TL6 RH



TL6 FH

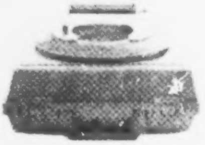
LJ6 VH

Bulletin 2/88 1-R

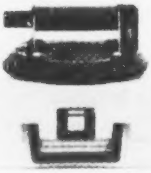
What do you get when you buy POWR-GRIP?

A handle where you want to lift.	The rubber gripping pad attaches firmly - but gently - to almost all non-porous surfaces. The 8-inch pads work best on flat areas, while the semi-concave 6-inch pad fits curves as well as flat.
A signal when it's safe to lift.	A red line on the pump plunger serves as a vacuum indicator. When the cup is properly attached, the plunger stays in and the red line is NOT visible. This indicates sufficient vacuum to insure a safe lift.
Value that lasts the life of the cup.	Regardless of condition, metal cups retain a healthy percentage of their original value through the Powr-Grip exchange program. Prompt factory repair is available on all models. Parts service on N-4000 and TL6 models permits do-it-yourself repairs.

8-Inch Vacuum Cups


N-4950

Designed originally for handling flat glass, our 8-inch metal-handle POWR-GRIP cup (N-4950), has built a reputation in materials handling extending over 25 years. A few quick pump strokes turns its 50 square-inch gripping surface into a rock-solid hold on any non-porous material, with the capacity for almost any manual lift. More recently, Powr-Grip developed the N-4000, using high strength polycarbonate material for the handle and the pump. Wearing the same rubber gripping pad and boasting the same carrying capacity, this new cup provides a tough, durable and lightweight alternative to its metal counterpart. Both come in protective cases.


N-4000

6-Inch Vacuum Cups

TL6-BH

Here is a cup that works equally well on both flat and curved surfaces. The semi-concave design of the rubber gripping pad allows the 6-inch cup to conform to curves, while the molded-in steel ring gives it stability on flat surfaces. TL6 models come with a rigid, cast handle designed for lifting material vertically, or a flexible, bale type handle for lifting in either direction. Both cups have pumps made of tough, Noryl plastic. The LJ6 model features an all-metal handle/pump assembly mounted vertically on the pad. Lift tabs on the pad edges provide fast release. A snap-on pad protector is provided.

LJ6-VH

Wood's Powr-Grip CO., INC.

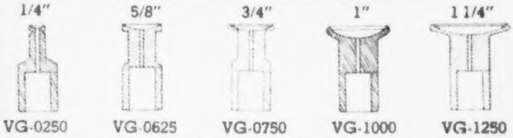
P.O. Box 899
Wolf Point, MT 59201
(Mont. & Outside U.S.) 1-406-653-2212

1-800-548-7341
FAX. (406) 653-3136
Telex: 364412 INTR 334

Wood's Powr-Grip Small Cup Series

PU-0950
V-1275

PAD DIAMETERS AVAILABLE



PU-0950 PICK-UP STICK

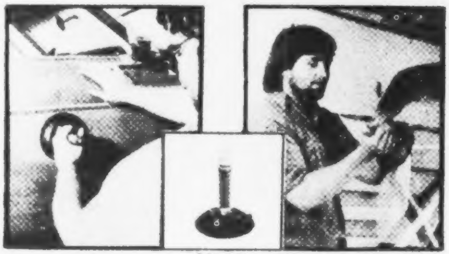
The Powr-Grip Pickup Stick is ideal for handling small, smooth, non-porous materials. It can help with critical positioning and placement during assembly operations, provide a handy holding device when photographing small products or perform a multitude of other pick and place operations.

V-1275 VALVE GRINDER

Powr-Grip's Valve Grinder takes the aggravation out of resurfacing valves and seats in four cycle engines. Its balanced vacuum chamber and flexible cups virtually eliminate unexpected pop-off. Interchangeable cups in five diameters (three standard and two optional) cover most valve sizes.

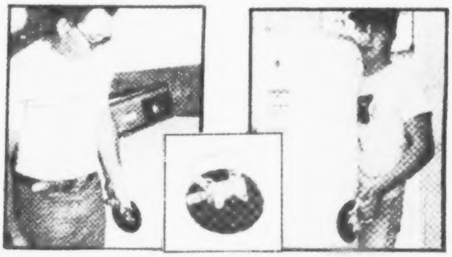
TL6-TD

Powr-Grip's Vacuum Tie-Downs make temporary load attachment a snap! The six inch diameter cup attaches in seconds on smooth, non-porous surfaces, without marring. Red-line vacuum indicator visually alerts user if vacuum loss occurs. It is a convenient tool for contractors, rental shops, movers, and outdoor enthusiasts.



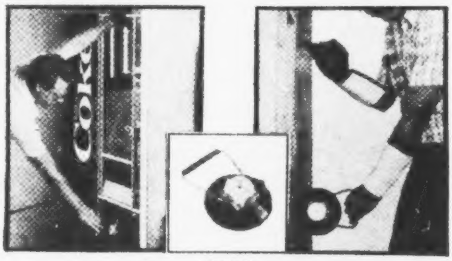
LJ6-VH

The Vertical Handle Powr-Grip provides comfortable hand placement when ordinary handles can't. The large volume pump permits quick attachment on both flat and curved surfaces. The non-slip, solid attachment makes the cup particularly well suited for auto body dent pulling, sheet metal positioning, and windshield replacement.



TL6-RH

Designed specifically for vertical lifting, the rigid handle of the TL6-RH provides a solid lift point on smooth, non-porous surfaces. The "Rigid Handle" Powr-Grip attaches in seconds to flat or curved surfaces making the handling of awkward or bulky items, such as storm windows, office furniture, and appliances, quick and easy.

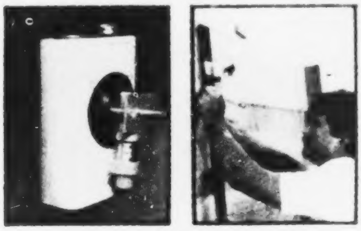


TL6-FH

The narrow profile of the TL6-FH makes it an excellent tool for pulling sheet metal, plexiglass, plate glass, or any smooth, non-porous material from within narrow storage racks. The flexible, bale-type handle makes it equally suited to either horizontal or vertical lifts.

ACCESSORY MOUNTS

Powr Grip Accessory Mount units provide a strong, reliable temporary fastener on any relatively smooth, non porous surface, such as automobiles, boats, recreational vehicles, filing cabinets, desks, appliances, etc. The cups attach to either flat or curved surfaces and are offered in a range of styles that cover most application and capacity requirements. The integral 1/4 - 20 thread stud provides a convenient attaching point for Powr Grip accessories or other equipment.

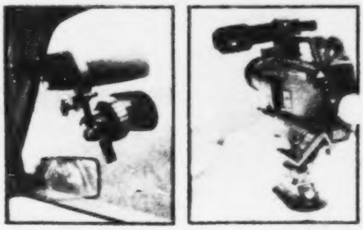


TL3-AM

The TL3-AM is a three inch diameter cup with a 15 pound Safe Work Load Rating. The smallest of the accessory mounts, its compact size permits a variety of specialized uses. Common applications include use as a straight edge holder, flag or banner holder, photographic light or prop holder and a light duty hand cup for glazing applications.

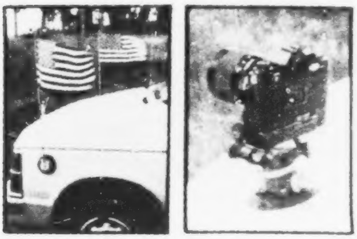
TL3 AM

RF36-AM



RF36-AM

The slightly concave 3 x 6 inch oval pad of the RF36-AM provides a quick attaching mount with a Safe Work Load Rating of 40 pounds. The oval design allows the center of the mount to be positioned near the edge of the attaching surface making it ideal for spotting scope and camera mounts, audio visual equipment mounting, and glass handling.

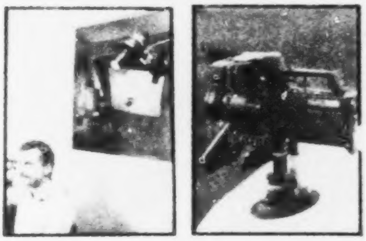


LJ4.5-AM

The LJ4.5-AM, like the RF36-AM, has a Safe Work Load Rating of 40 pounds. Its round, 4½ inch diameter pad attaches easily to curved and flat surfaces. It provides a solid and stable mount for flags and banners, still cameras, photographic and emergency lighting equipment, and audio visual equipment.

LJ4.5 AM

TL6-AM



TL6-AM

The TL6-AM is the largest of the Accessory Mounts. Its six inch diameter pad provides a Safe Work Load Rating of 70 pounds. The increased load capacity makes this mount ideal for use as a video and still camera support, as well as a platform for photographic, audio visual or lighting equipment.

ACCESSORIES

FLAG MOUNTS

STRAIGHT EDGE SUPPORT

T HANDLE

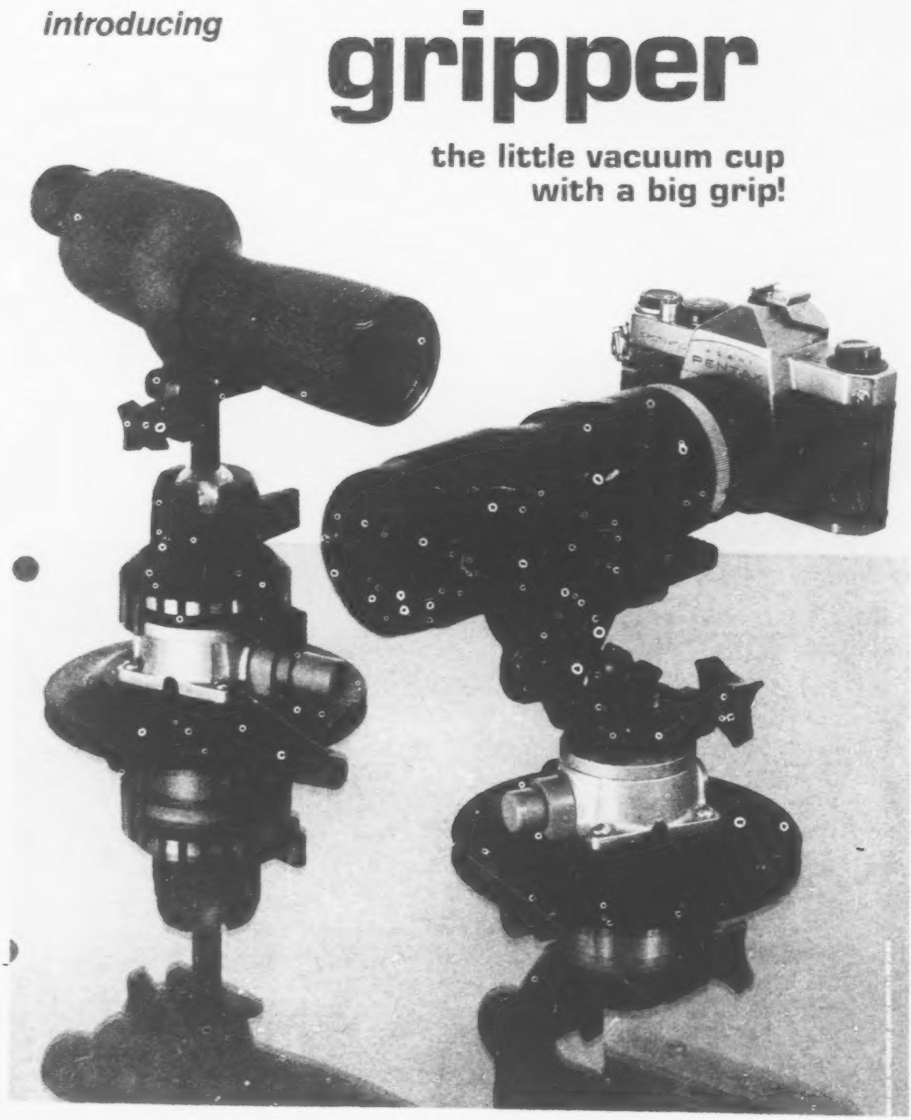
ACCESSORY STUDS

PAN HEADS

Wood's Powr-Grip CO., INC.

(406) 653-2212
1-800-548-7341

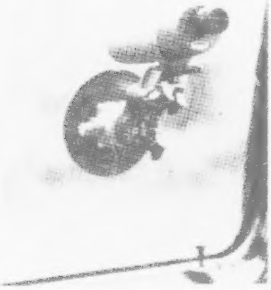
TELEX: 364412 INTR 334
P.O. BOX 899
WOLF POINT, MONTANA 59201
FAX: (406) 653-3136



introducing

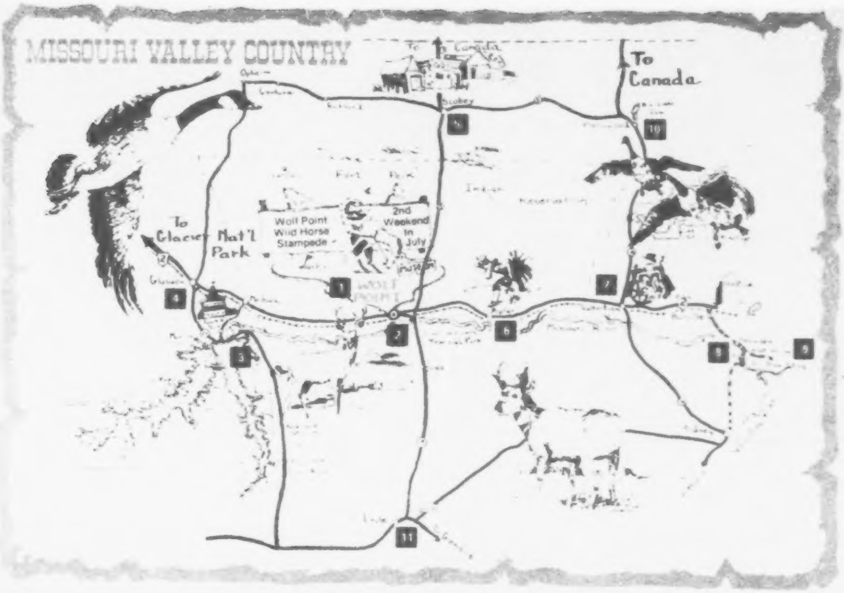
gripper

**the little vacuum cup
with a big grip!**

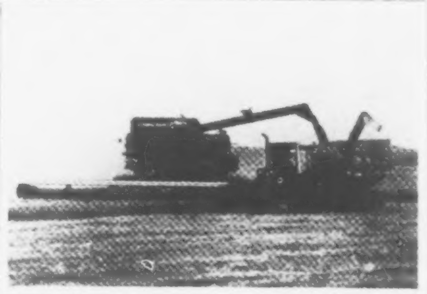


- Holds firmly on most metal and glass surfaces, flat or curved.
- Attaches in seconds.
- Won't mar or scratch.
- Releases instantly.
- Visual grip indicator.
- Cup can be used with most standard tripod heads.
- Pad protector allows use without attachment.
- Fits easily into pocket or camera bag.
- Stability previously found only in top quality tripods.

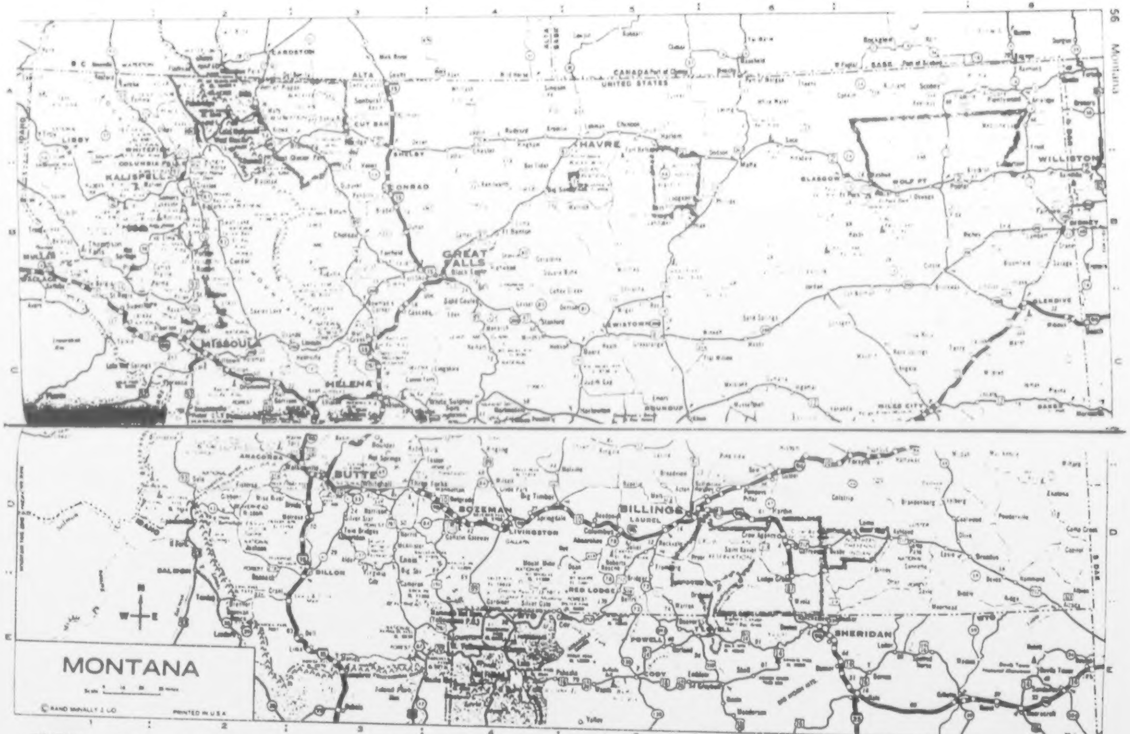
WOOD'S POWR-GRIP CO., Inc. 233 Cascade, Wolf Point, MT 59201 — 800-548-7341 (Orders Only)


MISSOURI VALLEY COUNTRY
To Canada
To Canada
To Glacier Nat'l Park
Fort Peck Indian Reservation
Wolf Point Wild Horse Stampede
2nd Weekend in July
Wolf Point
1
2
3
4
5
6
7
8
9
9
10
11

1	Historical Society Museum, golf course, swimming pool, home of the world famous "Wild Horse Stampede"
2	Lewis and Clark Park, Buffalo Trap, Site of "Fort Charles"
3	Fort Peck Lake
4	Glasgow Museum
5	Pioneer Town
6	Poplar Museum
7	Large collection of antique farming equipment
8	Snowden Draw Bridge
9	Fort Union, Fort Buford
10	Plentywood Museum
11	McCone County Museum



56 Montana


CANADA
UNITED STATES
CARDSTON
ALTA
B.C.
LIBBY
WHITEFISH
COLUMBIA FALLS
KALISPELL
CUT BANK
SHELBY
CONRAD
HAVRE
GLASGOW
WOLF PT.
WILLISTON
SIDNEY
GREAT FALLS
LEWISTOWN
MISSOULA
HELENA
MILES CITY
GLENDIVE
ANACONDA
BUTTE
BOZEMAN
LIVINGSTON
BILLINGS
LAUREL
DILLON
RED LODGE
POWELL
CODY
SHERIDAN
MONTANA
W
E
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PRINTED IN U.S.A.

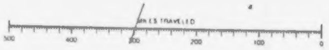
MONTANA

Population 786,690
(1980 Census)
Land Area 145,388 Sq. Mi.
Capital, Helena

Cities and Towns

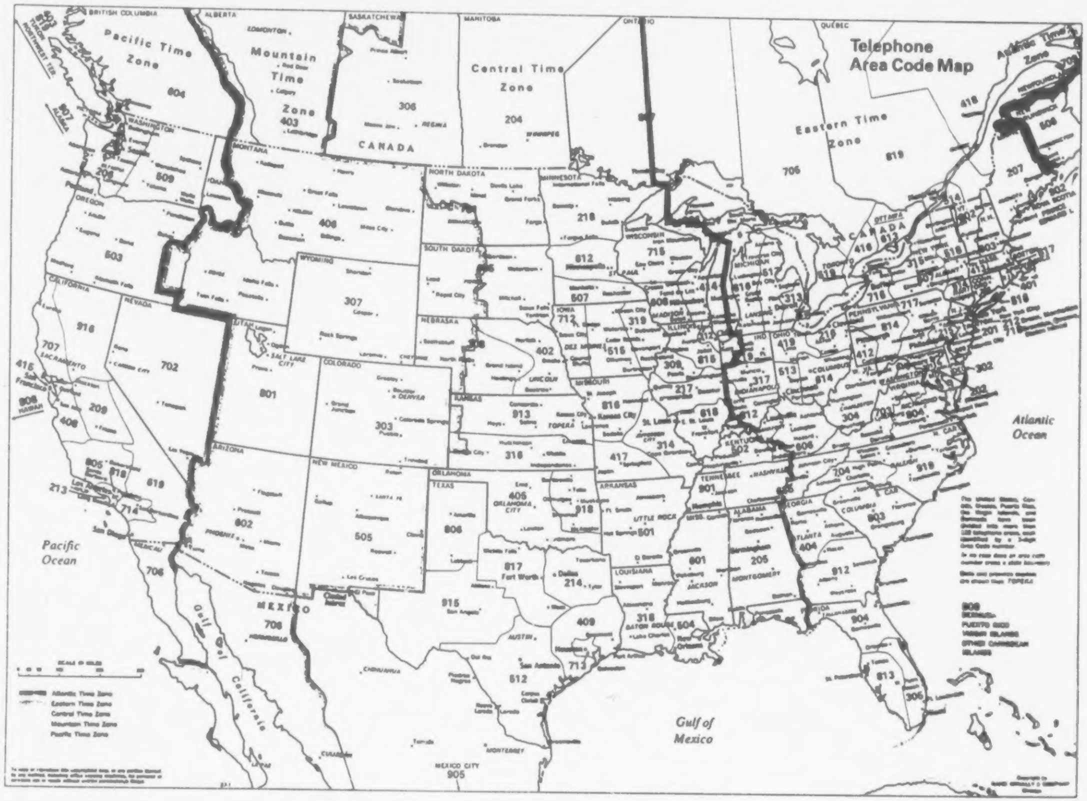
Absarokee	D-5
Alberton	C-2
Anaconda	D-2
Ashland	D-7
Augusta	B-3
Avon	C-3
Bainville	B-8
Baker	C-8
Ballantine	D-6
Belfry	E-5
Belgrade	D-4
Belt	B-4
Big Sandy	B-4
Big Timber	D-4
Billings	D-5
Black Eagle	B-4
Boulder	D-3
Bozeman	D-4
Bridger	D-5
Broadus	D-8
Browning	A-3
Butte	D-3
Cascade	C-3
Chester	A-4
Chinook	A-5
Choteau	B-3
Circle	B-7
Clyde Park	D-4
Columbia Falls	A-2
Columbus	D-5
Conrad	B-3
Crow Agency	D-6
Culbertson	[illegible]
Cut Bank	A-3
Deer Lodge	C-3
Denton	C-4
Dillon	D-3
Dodson	A-6
Drummond	C-2
East Glacier Park	A-3
E. Helena	C-3
Ekalaka	D-8
Ennis	D-3
Eureka	A-1
Fairfield	B-3
Fairview	B-8
Flaxville	A-7
Forsyth	C-7
Ft. Belknap	A-5
Ft. Benton	B-4
Ft. Peck	B-7
Froid	A-8
Geraldine	B-4
Geyser	C-4
Glasgow	B-7
Glendive	C-8
Grantsdale	C-2
Grassrange	C-5
Great Falls	B-4
Hamilton	C-2
Hardin	D-6
Harlem	A-5
Harlowton	C-5
Havre	A-5
Hays	B-5
Helena	C-3
Hinsdale	A-6
Hot Springs	B-1
Hysham	C-6
Joliet	D-5
Joplin	A-4
Jordan	B-6
Kalispell	B-2
Kremlin	A-4
Laurel	D-5
Lewistown	C-5
Libby	A-1
Lima	E-3
Lincoln	C-3
Livingston	D-4
Lodge Grass	D-6
Malta	B-6
Manhattan	D-4
Martinsdale	C-4
Medicine Lake	A-8
Miles City	C-7
Milltown	C-2
Missoula	C-2
Nashua	B-7
Opheim	A-7
Philipsburg	C-2
Plains	B-1
Plentywood	A-8
Polson	B-2
Pompeys Pillar	D-6
Poplar	B-7
Red Lodge	E-5
Rexford	A-1
Richey	B-8
Ronan	B-2
Roundup	C-5
Roy	C-5
Rudyard	A-4
Ryegate	C-5
Saco	A-6
St. Ignatius	B-2
St. Regis	B-1
Scobey	A-7
Seeley Lake	C-2
Shelby	A-3
Sheridan	D-3
Sidney	B-8
Simms	B-3
Somers	B-2
Stanford	C-4
Sunburst	A-3
Superior	C-1
Terry	C-7
Thompson Falls	B-1
Three Forks	D-3
Toston	D-3
Townsend	C-3
Troy	A-1
Twin Bridges	D-3
Ulm	B-3
Valier	B-3
Walkerville	D-3
Warm Springs	D-3
Whitefish	A-2
Whitehall	D-3
White Sulphur Sprs.	C-4
Wolf Pt.	B-7

Montana 57


MILES TRAVELED
500
400
300
200
100
0

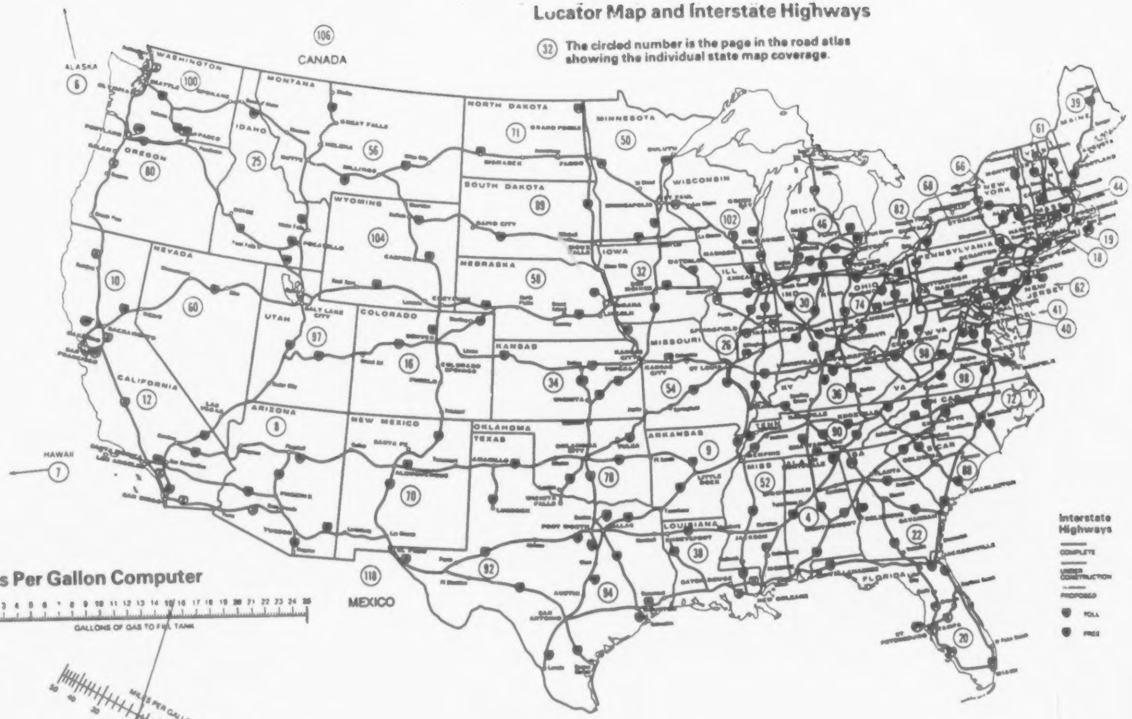
B Use a straight-edge and line-up (connect) these figures on the appropriate upper and lower horizontal scales. (The red line illustrates the procedure.)

C Read off the miles per gallon where the straight-edge line intersects the center diagonal scale.

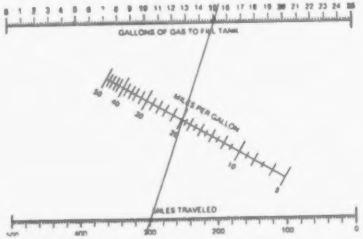

Telephone
Area Code Map
Pacific Time Zone
Mountain Time Zone
Central Time Zone
Eastern Time Zone
Atlantic Time Zone
CANADA
MEXICO
Pacific Ocean
Atlantic Ocean
Gulf of Mexico
Gulf of California
MEXICO CITY
905
Atlantic Time Zone
Eastern Time Zone
Central Time Zone
Mountain Time Zone
Pacific Time Zone

Locator Map and Interstate Highways

(32) The circled number is the page in the road atlas showing the individual state map coverage.


ALASKA
6
CANADA
106
WASHINGTON
100
OREGON
80
IDAHO
25
MONTANA
56
NORTH DAKOTA
71
SOUTH DAKOTA
89
WYOMING
104
NEVADA
10
60
UTAH
97
COLORADO
16
NEBRASKA
58
KANSAS
34
CALIFORNIA
12
ARIZONA
8
NEW MEXICO
78
OKLAHOMA
TEXAS
92
94
MINNESOTA
50
IOWA
32
MISSOURI
54
ARKANSAS
9
LOUISIANA
38
WISCONSIN
102
ILL
26
MICH
46
IND
30
OHIO
74
KY
36
TENN
90
MISS
52
ALA
4
GA
22
FLORIDA
20
S CAR
88
N CAR
98
VA
72
W VA
PENNSYLVANIA
82
NEW YORK
68
66
MAINE
39
61
44
19
18
NEW JERSEY
62
41
40
HAWAII
7
MEXICO
110
Interstate Highways
COMPLETE
UNDER CONSTRUCTION
PROPOSED
TOLL
FREE

Miles Per Gallon Computer


0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
GALLONS OF GAS TO FILL TANK
MILES PER GALLON
50
40
30
20
10
0
MILES TRAVELED
400
300
200
100
0

Directions for use of the computer:

A Determine the total miles traveled and the gallons of gas needed to refill tank.

B Use a straight-edge and line-up (connect) both of these figures on the appropriate upper and lower horizontal scales. (The red line illustrates the procedure.)

C Read off the miles per gallon where the straight-edge line intersects the center diagonal scale.

Senator BAUCUS. I appreciate that, because I come from a sheep and cattle ranch. That is exactly true.

What do we do about all of this?

I do have a note here, we do have transportation for you.

Ms. WOOD. Thank you.

Senator BAUCUS. What do we do about all of this? Does it make sense to give some kind of economic incentives to airlines so that there are bigger planes with more seats that would fly more frequently in and out of communities such as Wolf Point? Would that help?

The same with telecommunications. Maybe it would help if there were more incentives for more computer technologies or satellites or other communications investments in rural areas.

Does this make any sense or am I way off base?

Ms. WOOD. I am sure something can be done with the tax dollars. I am not keen enough on that to tell you how to do it. But I do know that there are tax incentives that would help us a great deal in maintaining an inventory and various other things.

We pull our raw materials in and sit on the money for 6 to 8 months before it goes out the door, because of the nature of our business. And if we keep growing, that means that at the end of the year we have to have this high inventory to pay taxes against, that we will not see money on for 8 months, plus the labor, you know.

But I am sure there are ways that we can work with the tax incentives to do something, either with the small business—we need to get the information out somehow. Communication is a real horrendous problem.

Senator BAUCUS. My great grandfather started just east of Wolf Point, in Culbertson. He had a place just by the river there, and I appreciate the problems.

Do you have any other points you want to make? You have heard the earlier witnesses.

Ms. WOOD. Yes, and I thought they had a lot of good things to say.

Senator BAUCUS. What did they say that you think makes the most sense? And second, what did they say that maybe you could improve upon?

Ms. WOOD. What Mr. Abdnor said about his points about what he felt were most important, those were very good, and that the people need education. We do need education. We need education assistance in the management, the entrepreneurs, the community.

We need that help. They have had the satellite program that he was talking about. They do have a satellite office from SBA—I am not sure whether it is SBA or the Department of Commerce.

Oftentimes what is done in the State of Montana is done out here by the SBA, but we work through the Department of Commerce there. And they have been in to see us. We are just excited because they are coming in to see us now, and they are now trying to see if they can find funds. And we have someone running numbers to see at what point we can afford to pay payments on a building.

At this point, we can not afford another $11,000 a month for a building. The excess cash just is not there.

Senator BAUCUS. You have given I think the most articulate statement of practical nuts and bolts problems that a small businessperson faces, an excellent start. And I want to thank you very much for taking the time to hassle with the transportation schedule to come back here.

I want to make sure you get your plane so you get home.

Ms. WOOD. Thank you. I sure appreciate that.

Senator BAUCUS. You bet. Thank you.

Professor Pulver, thank you for waiting.

STATEMENT OF GLEN C. PULVER, PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF WISCONSIN-MADISON, MADISON, WI

Mr. PULVER. Mr. Chairman, I appreciate the opportunity to speak with you about the future economic prospects of rural America.

For well over 60 years, rural America has gone through a gradual, but major, economic change. Once heavily farm-dependent, rural areas have become more dependent on employment in manufacturing and services and income from social security dividends, interests and rents. For some time levels of income, education, and other indices of economic well-being have grown closer to those of urban areas, but things are now different.

There is now a growing disparity between urban and rural areas, and rural Americans have lower incomes, fewer job opportunities, higher underemployment rates, and are more apt to live in poverty. And things seem to be getting worse.

The fundamental question faced by policymakers is: Where will the jobs and income necessary to sustain rural America come from in the future? Some income growth may come from agriculture, forestry, and mining, but probably with reduced employment.

Older firms and slower growth and declining manufacturing industries will continue to restructure production and distribution processes, creating new branch locations, and/or expansions of some existing facilities.

In addition, technological development will lead to entirely new products and business startups. The increased efficiency of existing businesses, and thus their retention and expansion, should be a primary concern of those interested in rural economic development.

But we must recognize that most new employment opportunities in the United States wil come from service-producing industries and high technology manufacturing.

If rural America can be competitive in generating jobs in business services, personnel services, health services, tourism, finance, and insurance, as well as manufacturing of communications equipment, electronics, plastics, and printing, its future is bright. If not, life in rural areas is apt to become more difficult.

No one can predict with great accuracy which firm or industry will choose to locate in a specific locality or region. While the previous works of regional scientists have focused on the goods-producing sector, especially manufacturing, some insights have been gained regarding the service-producing sectors and high technology manufacturing.

Five factors appear critical: Access to knowledge, capital, transportation, telecommunications, and a high quality living environment.

Because access to these factors varies among States and communities, economic revitalization opportunities differ. Cities with populations of 15,000 to 20,000 people seem to offer sufficient conditions regarding the critical location variables to provide a base for the formation and expansion of these high growth industries.

Most cities of this size have 4-year universities, are near interstate highways, have commercial airline service, have excellent health care, and possess one or more banks with at least $100 million in total assets.

The problem is, more directly, rural America. In essence, there are two rural Americas: One which is adjacent to urban areas and the second in the more remote rural regions.

Those rural communities within easy commuting distance of cities can expect to attract many of the same business types as their urban neighbors. Establishments can be started or placed in smaller communities as long as the ownership and/or management have easy access to critical factors, such as capital and transportation, found in nearby cities.

The job and income growth opportunities of more remote rural regions are more difficult. Those remote regions with natural resources which can be exploited at some worldwide comparative advantage may have growth opportunities in traditional sectors.

Other industries, such as tourism, retirement centers, nursing and personal care services, long distance trucking, nonresidential construction, insurance headquarters, data processing centers, and, yes, some professional services represent reasonable development prospects in certain remote rural areas.

In an economy dominated by private business decisionmaking, Government and other quasi-public institutions can stimulate rural economies by creating an appropriate development environment, including regulations, incentives, and direct assistance.

Perhaps the single most important initiative which could be taken to strengthen rural America's economy would be to expand education and technical assistance about economic development provided local units of Government, business people, and other community leaders.

Since opportunities for increased income and new jobs vary among States and communities, local action strategies must be specific. The challenge for local leaders is to know their most viable options and to select those initiatives which are apt to have the greatest payoff.

Currently, a great deal of energy is wasted in fruitless effort simply because community leaders, including businesspeople, are not well informed as to the strategies likely to produce the greatest payoff considering their unique goals and resource conditions.

Rural communities, both those close to urban areas and those which are remote, are at a distinct disadvantage when compared to larger metropolitan centers. They have less indigenous specialized knowledge, rely almost totally on volunteer leadership for policy guidance, have smaller economic bases for private capital and public finance, and are more distant from sources of technical and financial assistance.

If rural America is to realize its full economic potential, help from Federal and State governments will be necessary. In my written testimony I have given a couple of examples, and I need to ask the secretary to correct the error which is included indicating that SBA is a part of the U.S. Department of Commerce. The SBA is stand-alone agency, an error on my part.

In conclusion, rural America can participate fully in the economic growth of the United States. There are realistic job and income development opportunities for rural areas if local businesspeople and community leaders make effective policy choices.

Their prospects of doing so would be greatly enhanced by Federal, State, and local government investments in education and technical assistance for community leaders regarding community economic development and local businesspeople and entrepreneurs in business management.

Thank you.

[The prepared statement of Mr. Pulver follows:]

TESTIMONY OF GLEN C. PULVER
Professor of Agricultural Economics
University of Wisconsin-Madison

Before the
U.S. Senate Small Business Subcommittee
on the Rural Economy and Family Farming

July 13, 1988

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to speak with you about the future economic prospects of rural America.

For well over 60 years, rural America has gone through a gradual but major economic change. Once heavily farm-dependent, rural areas are becoming more dependent on employment in manufacturing and services, and income from social security, dividends, interest and rents. Slowly but surely, the residents of rural areas are beginning to share the "American dream." Levels of income, education and other indices of economic well-being are now closer to those in urban areas.

But in recent years things have changed. The rural economic crisis of the 1980s sharpened public awareness of a turn in the fortunes of rural America. There is now a growing disparity between urban and rural areas. Rural Americans have lower incomes, fewer job opportunities, higher underemployment rates and are more apt to live in poverty -- and things are getting worse.

Rural areas are more heavily dependent than urban areas on goods-producing industries such as farming, forestry, manufacturing and mining, which have suffered recent employment losses. Although for the most part output is increasing in these industries, the number of proprietors and workers is falling steadily. Furthermore, in spite of some general recovery in manufacturing employment in 1988, there appears to be little prospect for significant employment growth in the goods-producing sector for some time to come. The fundamental question faced by policymakers is, "Where will the jobs and income necessary to sustain rural America come from in the future?"

Rural Economic Revitalization Prospects

Some income growth may come from agriculture, forestry and mining, but probably with reduced employment. Government policies and individual decisions which affect the capacity of rural areas to be internationally competitive in farming, forestry, manufacturing and mining are crucial. Older firms in slower growth and declining manufacturing industries will continue to restructure production and distribution processes, creating new branch locations and/or expansions of some existing facilities. In addition, technological development will lead to entirely new products and business start-ups.

The increased efficiency of existing businesses, and thus their retention and expansion, should be a primary concern of those interested in rural economic development. A large share of new jobs will come from this source. The nurturing of entrepreneurship may also lead to the formation of successful new businesses in rural areas which appear to be located contrary to traditional theories on location.

Growth may occur in some regions through natural resource-based industries and/or isolated establishments such as military bases. But most new employment opportunities in the U.S. will come from service-producing industries and high technology manufacturers. If rural America can be competitive in generating jobs in business services, personnel services, health services, tourism, finance and insurance as well as manufacturing of communications equipment, electronics, plastics and printing, its future is bright. If not, life in rural areas is apt to become more difficult.

Variations in Opportunities

No one can predict with great accuracy which firm or industry will choose to locate in a specific locality or region. While the previous works of regional scientists have focused on the goods-producing sectors, especially manufacturing, some insights have been gained regarding the service-producing sectors and high technology manufacturing. Five factors appear critical.

- ♦Knowledge: The application of higher levels of technology, and more frequent adjustments in production and service processes demand better educated employees.
- ♦Capital: If businesses with growth potential have difficulty acquiring financing for start-ups, expansion or adoption of new technology, a region will lag.
- ♦Transportation: Proximity to interstate highways and quality airline facilities with competitive ticket prices are increasingly important location variables.
- ♦Telecommunications: In a few years, it is expected that dependable, low-cost communication linkages will be a fundamental requirement of most industries.
- ♦High quality living environment: Most people desire access to good schools, excellent health care, physical security, recreational and cultural opportunities, satisfactory housing, public amenities, clean air and water and an aesthetic setting.

Because access to these factors varies among states and communities, economic revitalization opportunities differ. Cities with populations over

15-20,000 people seem to offer sufficient conditions regarding the critical location variables to provide a base for the formation and expansion of the high growth industries. Most cities of this size have four-year universities, are near interstate highways, have commercial airline service, have excellent health care and possess one or more banks with at least $100 million in total assets.

Rural communities within easy commuting distance of these cities can expect to attract many of the same business types as their urban neighbors. Establishments can be started or placed in smaller communities as long as ownership and/or management have easy access to critical factors such as capital and transportation, found in nearby cities. Workers can commute the necessary distance either to or from the cities and rural areas.

The job and income growth opportunities of more remote rural regions are more limited. In essence, there are two rural Americas: (1) those adjacent to urban areas, and (2) remote rural regions. The more remote rural America encompasses a large geographic area but a small percentage of the U.S. population. Those remote regions with natural resources which can be exploited at some worldwide comparative advantage may have growth opportunities in traditional sectors. Other industries such as tourism, retirement centers, nursing and personal care services, long distance trucking, nonresidential construction, insurance headquarters, data processing centers and some professional services represent reasonable development prospects in certain remote rural areas.

Policy Implications

In an economy dominated by private business decision-making, government and other quasi-public institutions can stimulate rural economies by creating an appropriate development environment including regulations, incentives and direct assistance. Actions such as the deregulation of air travel which has a negative effect on many rural regions or investments in community infrastructure which has a positive effect, clearly have a direct influence on the relative economic prospects of rural America. In the end, however, primary responsibility for taking actions which will improve the economic climate of any community lies in the hands of local leaders in both the private and public sector.

Perhaps the single most important initiative which could be taken to strengthen the rural American economy would be to expand education and technical assistance in economic development provided local units of government, business people and other community leaders. Since opportunities for increased income and new jobs vary among states and communities, local action strategies must be specific. The challenge for local leaders is to know their most viable options and to select those initiatives which are apt to have the greatest payoff. Currently a great deal of energy is wasted in fruitless effort simply because community leaders, including business people, are not well informed as to the strategies likely to produce the greatest payoff, considering their unique goals and resource conditions.

Rural communities, both those close to urban areas and those which are remote, are at a distinct disadvantage when compared to larger metropolitan centers. They have less indigenous specialized knowledge, rely almost totally on volunteer leadership for policy guidance, have smaller economic bases for private capital and public finance and are more distant from sources of technical and financial assistance. If rural America is to realize its full economic potential, help from federal and state governments will be necessary.

Two current programs deserve consideration as prospective models for further federal government involvement. Both are small programs with limited funding from federal, state and local governments.

1. The Community Resource Development Program of the Extension Service of the U.S. Department of Agriculture focuses on building the capacity of leaders in small towns and rural areas to make wise economic development policy choices. Intensive model programs of this kind have been initiated in a number of counties throughout rural America. Examples of major accomplishments are readily available.
2. The Small Business Development Center Program of the Small Business Administration of the U.S. Department of Commerce focuses on helping small business managers and prospective entrepreneurs build strong and successful enterprises. Although this educational program is available in both urban and rural regions, it is especially critical to rural business people because they have less access to other specialized assistance. This program is also proving its worth.

Conclusions

Rural America can participate fully in the economic growth of the United States. There are realistic job and income development opportunities for rural areas if local business people and community leaders make effective policy choices. Their prospects of doing so will be greatly enhanced by federal, state and local government investments in the education of community leaders regarding community economic development and local business people and entrepreneurs in business management.

Senator BAUCUS. Thank you, Professor Pulver.

Former Agriculture Secretary Bob Berglund is with us today and will testify that perhaps we need some kind of industrial extension service. As you know, the ag extension service has served American agriculture very well. I do not think anyone disputes that.

But as we all know, the percentage of income that people earn who live in rural America is becoming more and more nonagricultural income. Some experts estimate that as much as 50 to 60 percent of rural incomes are earned off the farm.

Does an industrial extension service that provides technical assistance make any sense to you?

Mr. PULVER. It is clear to me that some major investment has to be made in an extension service which will deliver community economic development education and/or business management education in rural areas.

I am not sure the business management education needs to be delivered through the U.S. Department of Agriculture. The SBA, as you know, is providing assistance through small business development centers to local businesses. I am from Wisconsin and proud to say that in our 72 counties in Wisconsin, well over 50 of our counties have an extension person within the cooperative extension service who does little or nothing with regard to agriculture at all.

Their function is directly focused on building community leadership capacity and educational programs on economic development, natural resource policy, and local government efficiency.

And those agents do exactly the kind of thing that most people would suggest is necessary in an industrial development extension. Now, that is a unique investment across the States. It is one of the few States where the administration of the extension service has chosen to reallocate resources and to fight hard for new State and local resources to do that.

It is an example or a model of what needs to be done. Whether or not it needs to be done in a distinctly separate agency from the cooperative extension service is for someone else to judge.

But we think our program delivers precisely the kind of information and help that was suggested by the last speaker.

Senator BAUCUS. I do not want to sound like a broken record. Maybe it is a bad idea, but I would like your reaction to the need or the advisability of providing some kind of financial incentives for transportation companies, for telecommunications companies, or financial services to make bigger investments in rural America. Does this idea have any merit?

Mr. PULVER. Well, I think they have absolute merit if the United States chooses to continue its commitment to economic growth and prosperity of its people, regardless of where they are located. We have made historic commitments to a Postal Service, not relying strictly on efficiency measures for its location.

We have made historical commitments to education, not relying necessarily on efficiency grounds.

Senator BAUCUS. Another example is the interstate highway system.

Mr. PULVER. If the public judgment is that we want to keep a distributed population living in rural areas with some economic advantage and economic well-being, then we are going to have to make some public subsidization of that process through regulations and financial incentives.

We have a large investment sunk in rural areas. If we allow efficiency measures to force us to abandon this investment it will be at a cost. So yes, I think there is a logic to providing public incentives.

Senator **Baucus**. Is the University of Wisconsin at Madison or any other organization working on trying to develop the nexus between urban and rural areas, to show how an affirmative policy to help rural America will not only help rural America, but will help urban America as well.

I think it is critical, politically, to our rural effort to convince urban areas that a prosperous rural America works to urban advantage.

Organizations should be spending time to develop this rationale.

Mr. **Pulver**. As you suggested, much of our analysis of what happens when people are moved to concentrated urban centers, does not include the costs associated with the concentration of people, that is, the crime that is associated with it, the difficulties in terms of urban concentration and traffic movement.

We set those aside and argue that somehow if people come together in one place things are more efficient. I think that if we clearly put all the variables into the calculation, we would discover that it is in the urban interest to make some public investment in educating people in more rural areas and providing support and perhaps some subsidy.

I want to come back to the major point, and that is unless we have a very well-informed local community with assistance available to it to make its decisions, it is going to make a lot of futile choices. And I think that is precisely the frustration you have when you have a group of community leaders from small towns trying to make proper judgments on economic development and a series of other issues.

We have got to provide them more assistance than we have.

Senator **Baucus**. I have no more questions.

Mr. **Pulver**. Thank you.

Senator **Baucus**. Thank you very, very much. You have been very helpful.

I would like now to combine the remaining two panels into one: Mr. Bob Bergland, Chris Page, Don Dillman, and Ms. Barbara Henrie. Please all join us.

[Pause.]

Senator **Baucus**. Again, we are honored to begin with Bob Bergland, an old friend, a good friend, a former Secretary of Agriculture, Member of Congress, very involved in many other organizations, just a very good American.

We are glad to have you here.

STATEMENT OF ROBERT BERGLAND, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, WASHINGTON, DC

Mr. **Bergland**. Thank you very much. I have a very good statement prepared I would like to submit for the record and briefly summarize.

It was about 55 years ago that the then President of the United States and his colleagues in the Cabinet were surveying the wreckage of the Great Depression, and among the things they studied was how do we bring electricity to those eight million families that were beyond the reach of the electric marketplace.

It was a market economy for electric power, but eight million families were denied access to that market. And the President knew that as long as these farm and ranch families lived without electric lights—or with candle light and in the primitive energy forms, they would always live in poverty.

And so they launched a social experiment, a grand experiment that has been a huge success, called the REA. The Rural Electrification Act was passed in 1936. And the genius of this program is that it tied together the best of both worlds.

They organized local community leaders to form local utility companies in partnership with the Federal Government that provided the financing and the engineering services. And they accomplished a task that all the business experts at the time said could never be done.

The coming of electric lights to the rural places was in itself a major development on its merits. We think the experience of the REA can be replicated in other forms of development, and we are in the process of experimenting with some of those.

We have some recommendations. We believe that any and all development strategies have to combine local private business leadership, and they must be committed, with local government officials—mayors, county commissioners, and the like, who must be committed. State agencies have a role, and there is a vital and necessary Federal role in these kinds of programs.

We agree that the basic thrust needs to be to build on existing industry and we believe that, as the Administrator of the Small Business Administration said, that most of the jobs in rural places are in small business.

Covering the five points you raised in your notice for the hearing, I will just briefly comment: One, on transportation. We unfortunately took the world's best airline system and fixed it. And the basis of the argument for deregulation is that we let the marketplace sort these things out.

Well, it is the same circumstance as in 1936, when they were going to let the marketplace provide electricity: Eight million families went without. We simply cannot, as a matter of national policy, allow the marketplace to be the determinant in our growth and development.

A marketplace can establish price, but it cannot set value. And it is a matter we simply cannot be bound by, that is that we are always driven by some market test. There are certain social purposes in having electric lights and roads and airports in rural places.

These are national treasures that need to be developed together. And so in the field of transportation, we think there is a need for some kind of public interest protection. And precisely how this needs to be done, we don't know. We're not ready to recommend anything as yet.

But we do know that it's not just airports. There are several thousand communities that have lost their commercial bus service. Trains left rural places mostly 30 and 40 years ago.

And it was generally argued that, well, the interstate highways can take up the slack created by the abandonment of railroads. But the truth of the matter is that the interstate highways are now 30 and 40 years old and they are not being maintained.

We have hundreds of bridges and thousands of miles of roads which are falling apart, and we are not investing in those kinds of facilities.

And so there needs to be a Government presence in highways and railroads and in air service and bus service, and a comprehensive plan needs to be developed. It cannot be left to the vagaries of the marketplace, because investors cannot afford the risk.

In the field of telecommunications, we have launched some experiments that we think are very interesting. Telecommunications has the inherent capacity to overcome the handicap of distance. Time was when it was believed that a plant had to be located across the street from headquarters. Now, with modern robotics, computerized controls, and the electronics which go with this modern day system, the telecommunications renders distance meaningless.

We need to build a network, however. We need a system, and this is going to be probably impossible to develop on an individual business basis. I think there needs to be some kind of an arrangement where these local or these rural communities can tie into a network so they can be a part of an international network.

We are attempting to—we are experimenting with this to see what we can do to bring television to rural places and telecommunications on a bidirectional basis. It is being organized through the rural electric cooperatives, and a network through these cooperatives is being formed.

We would like to work on ways in which we could share that network with businesses within these communities, so that they could tie into the outside world.

Capital is critical. The argument for interstate banking and large scale branch banking was that this will provide small communities with access to large banks in the big cities. Our experience is it goes the other way around. These big banks go to the country and they act like a vacuum cleaner.

They suck up savings and send it off to California and other States, and overseas in fact, depriving local rural businesspeople of access to credits. Especially when we get into the field of business development, there needs to be some kind of a Federal loan guarantee program, because we simply cannot attract the kinds of credits we need to build plants and support them on the scale necessary.

The access to technology is of critical importance. We are recommending the formation of an industrial extension service. It is probably best oriented around the State universities or the university structure in the State.

The Agricultural Extension Service has been a huge success. It has enabled America to transfer the knowledge that exists at the agricultural experiment stations to the farms and ranches of the States. The record of this agency speaks for itself.

We think the same kind of thing can be done to bring the engineering school, technical school, marketing, finance school experience at the universities in the States to the local business community through some kind of an organized service.

And this sort of skill can be made available to local business leaders to help with their technical and engineering problems.

We are looking at the possibility of forming, through the rural electric cooperatives again, a research library, an electronic library, where we would here in Washington subscribe to research facilities and make these available to local cooperatives. They in turn could share this with business leaders in their community.

But it is a heavy financial load to bear, and we are going to need some help.

Finally, the need for training and education itself. There absolutely needs to be a coordinated program. This is mainly a State and local function, but the support for training and education is a necessity that cannot be overlooked.

Mr. Chairman, that concludes the summary of my statement.

[The prepared statement of Mr. Bergland follows:]

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Statement

of

Bob Bergland

Executive Vice President

National Rural Electric Cooperative Association

before the

Subcommittee on the Rural Economy

and Family Farming

Small Business Committee

United States Senate

July 13, 1988

Mr. Chairman and distinguished members of the Committee:

It is my pleasure to appear before you today to discuss the important issues relating to the condition of our rural economy, the actions which must be taken to restore vitality to the countryside, and an appropriate role for the federal government in working in a partnership with others to promote rural economic development.

NRECA is the national service organization for the 1000 rural electric systems which provide power to 25 million people in 2600 counties in 46 states. Each rural electric cooperative is owned by its consumers who elect a board of directors to set policy and guide the cooperative in its service to the community. By their very nature, rural electric systems have both deep roots and a vested interest in ensuring that their communities grow and prosper.

The rural electric program is itself a prime example of a successful economic development effort. By creating a strong partnership between an effective federal government agency, the Rural Electrification Administration (REA), local grass-roots organizations, and rural electric cooperatives, this nation was able to successfully bring electric service to rural America. This was accomplished despite the fact that established utilities, and many knowledgable individuals were convinced that it was a foolish undertaking which could not work. Today, the rural electric cooperatives comprise a powerful network which covers much of the land mass of the United States. These systems are deeply involved in a wide variety of economic development activities beyond the provision of electric service.

We believe that the model of public/private partnership used to accomplish the task of electrifying rural America holds much promise, and should be investigated as new ways of helping to strengthen the rural economy are explored. The REA model is one in which the federal government does what it can do best in the development field -- provide technical assistance, develop standards, provide financial and other support, and provide leadership and overall program direction. However, none of this takes place without the commitment of local communities through grass-roots organizations, rural electric cooperatives, accountable through an annual election process to their member-owners.

We commend the Committee and appreciate the active, concerned leadership role you are taking on this important issue. We offer our full support and assistance.

I understand that the Committee is focussing on five major problem areas which must be addressed in order to strengthen the rural economy: (1) transportation, especially air transportation; (2) telecommunications; (3) access to capital; (4) access to technology; and (5) retraining and education. These items comprise a fairly comprehensive list of the factors which will determine whether rural America is competitive in the next century, and I couldn't agree more with your basic approach of focussing on the future. It seems that too often we try to solve yesterday's problems without understanding the impact of future trends and transitions.

Your approach is particularly useful, because today we find our nation undergoing a basic transformation. For some time the United States has been moving from an industrial and manufacturing economy to one based on services. In this new structure less value is given to repetitive and low skill jobs, and more value is given to creativity and so-called "knowledge" workers -- the key players in those areas in which most analysts think that the United States has a long-term competitive advantage. Along with this transition, it is also clear that we will continue to remain part of a world economy in which our nation can no longer expect to be the single dominant force as we once were. The world economy will be one in which all nations -- including the United States -- will affect and be affected by the actions of other nations.

This is a world in which we can compete and will succeed. But we cannot afford the luxuries of laziness, poor planning or the lack of strategic thinking. We must continue to place increasing emphasis on education, "tooling up", and prudent capital investments.

Unfortunately, many rural communities have experienced rapid declines during the last several years. The public record is full of the work of experts who have documented this decline. The data which have been compiled show that rural areas are experiencing: (1) a net outmigration of people; (2) job growth at less than a third the urban rate; (3) high levels of unemployment and under-employment; (4) higher poverty rates, lower incomes, and a growing gap when compared with urban areas in both of these measures; and (5) a heavy loss of college-educated people and significantly lower average levels of education than urban areas.

Rural electric cooperatives are part of rural America and they have in no way been sheltered from these economic realities. In recent years an increasing number of rural electric cooperatives have lost consumers as a result of outmigration. Of the 930 local rural electric distribution cooperatives, 136 lost consumers during 1983, 185 during 1984, 217 during 1985, and 255 during 1986. This outmigration occurred in twenty eight (28) states, all contiguous -- from North Dakota to Louisiana and from Ohio to Nevada.

Rural communities must not be left behind as our economy continues its transition and growth. Rural communities constitute a tremendous national treasure. Given a choice, people prefer to live in open countyside and small communities. Many of the values which have made our country great and continue to sustain our national spirit -- family closeness, honesty, commitment and a solid work ethic -- are strongest in rural communities. We believe that it is in the best interest of our entire nation for rural areas to be economically strong and to offer attractive employment opportunities, and essential services, including good schools, access to health care, reasonable housing, and other elements which are needed to attract and retain people. If these elements -- including the five which you have identified -- are not present, then the rural outmigration trends of the 1980's are likely to continue. And, Mr. Chairman, this increased concentration of people in urban centers is good for neither the cities nor the rural and small communities.

What can be done to address these problems, and what is the appropriate role of the federal government in doing this? Before discussing specific problems and possible solutions, let me explain a few of the basic principles which we have developed as a result of analyzing the economic development efforts of rural electric cooperatives over the last fifty years, and observing and analyzing other development programs.

1. The federal government can play an important role in helping to revitalize the rural economy. However, such a role must be carefully thought through and executed. In particular, it is our experience that local development problems cannot be solved by large Federal

spending programs which lack local support. Successful efforts must have a strong element of local commitment and initiative. The Federal role should be limited to doing what only the federal government can do, or what it does best -- making use of its regulatory authorities, developing standards, providing technical assistance, and, where needed, financing. This Federal role can be used most effectively when employed as part of a partnership with local grass-roots organizations which embody the commitment of the local community to the project for which assistance is provided, and which represent, and are accountable to the local community. In the absence of local leadership, commitment, and input, Federal resources are more likely to be wasted.

2. With limited resources and continued deficit problems, opportunities should be sought to use federal resources carefully and in ways which leverage their effectiveness. Use of existing networks, such as rural electric cooperatives and others, and the requirement that private capital be used along with federal funds should be considered.

3. Wise use of Federal regulatory authority can provide substantial assistance to the rural economy.

4. Generally the most beneficial and long-lasting economic development results are achieved by starting out small. It is often more realistic for a local community or cooperative to undertake a project that results in a few new jobs rather than expend energy and resources pursuing a large employer. Small successes can snowball into more small successes which build local vitality.

5. A "can do" attitude is essential to rural development. Those who are easily overwhelmed and have a pessimistic outlook are bound to reap more of the same. Those who succeed are people who can take that first important step and continue to move forward even after repeated failure. Development is a slow process which requires patience, perseverance and an understanding that positive results normally take time.

Let me address some of the specific concerns of this Committee, offer some suggestions for your consideration, and explain some of our recent initiatives in these areas.

First, Transportation: Access to reliable and reasonably priced transportation is absolutely essential to the economic viability of an area. In the case of ground transportation, if an area is not able to move raw materials in and finished products out, because of the poor condition or inadequate capacity of its roads and bridges, it will be difficult, if not impossible for it to attract or retain manufacturers and many other businesses. This Committee is quite aware of the serious problems many rural and urban areas face in this area of physical infrastructure, and of the high cost of dealing with this serious problem.

The lack of reliable, timely, and reasonably priced air transportation can also severely injure a community's prospects for industrial attraction and retention. Deregulation of the nation's airline industry has been a disaster for rural America. This concept may have looked appealing to some when it was on the drawing board, but for most places in rural America it has not worked. People and businesses in many rural areas have been left stranded, or held hostage by exorbitantly high costs and infrequent or nonexistent schedules. It is time for the Congress to reexamine this misguided policy. If the current policy of airline deregulation is maintained, a decision will have been made, perhaps by default, to cut off large numbers of rural communities from any opportunity to participate in the economic transition and growth of our nation.

Second, Telecommunications: Telecommunications has been called the highway of the future. There is absolutely no doubt that the workplace of the future will rely more and more on the ability to receive and transmit information instantaneously. If rural communities cannot do this, they will simply be left behind.

It was for this reason that, in August of 1986, NRECA created (in partnership with the National Rural Utilities Cooperative Finance Corporation) a new organization to promote satellite technology in rural areas. This organization, the National Rural Telecommunications Cooperative (NRTC) has negotiated a high quality package of television programs which it is now making available through the use of discriminate devices to rural families. These families, because of their remoteness, are outside of the reach of cable TV systems and also often do not receive adequate "off-the-air" reception. Additionally, NRTC is actively pursuing bi-directional uses of satellite telecommunications for business and industrial activities. Satellite communications are also being used by NRECA in education and training programs to rural electric personnel located at cooperatives across the country, thereby saving cooperatives and their personnel the expense and inconvenience of travel.

The challenges in the telecommunications field are great, but the opportunities are also great. This is a technology which is ideally suited for rural areas, and if used properly, can be instrumental in eliminating some of the major disadvantages of the remoteness which characterizes rural America.

Third, Access to Capital: There is significant disagreement among experts on the nature and extent of the problems which rural communities are experiencing with respect to obtaining access to capital. In some cases it appears that the closing of small rural banks and the consolidation of rural banks with more urban banks have either dried up the availability of credit to rural communities, or acted to vacuum funds out of rural communities into urban areas. In any event, there is no disagreement that, during the 1980s, the rate of business formation in rural communities has been far far less than in urban areas. Reports from our members indicate that the lack of availability of credit is a prime factor in this low rate of new business formation.

As a result of two provisions included in last year's Reconciliation Act, rural electric systems are now in a position to provide assistance to local communities in improving their access to capital. The first of these is a provision which permits rural electric systems to use their own funds to make investments in rural development projects, provided that the total of such investments do not exceed 15 percent of a system's investment in its electric facilities. The previous limit was 3 percent. The second provision of the Reconciliation Act is a "Cushion of Credit" program in which REA borrowers are encouraged to make payments ahead of schedule. Such payments generate 5 percent interest to the REA borrower, and the difference between this 5 percent rate and the cost of money to the REA revolving fund (now averaging about 11%) is placed in a separate subaccount -- the Rural Economic Development Subaccount -- to be used in making grants and zero interest loans as seed capital for economic development projects.

NRECA believes that rural electric systems could make a greater contribution to capital formation in local areas if REA were authorized to make financing available to REA borrowers for infrastucture and business and industry development. The forms of such assistance -- guarantees, loans, grants, and ability to assist in the creation of private revolving loan funds -- should be similar to the assistance available from other development agencies, such as the Farmers Home Administration. Additionally, as part of this new authority, REA borrowers would be encouraged to put together financial packages which leverage federal funds with private capital, including use of funds of the electric and telephone systems. This new authority would complement the two provisions of last year's Reconciliation Act which increase the amount of direct investments in economic development projects which may be made by REA borrowers.

Fourth, Access to Technology: In view of the transformation which will continue to occur in our economy, access to technology will continue to be a key ingredient in the economic success and vitality of any business or community.

I have argued for sometime that the United States needs a kind of "industrial extension service" which would bring expertise from the business, engineering and other schools to small and rural businesses in a practical and useful way. This type of effort would require a national commitment and would have to be structured very carefully. It would take time and resources to develop, and it would also take time to become effective. To succeed, such an effort would have to enjoy a long-term commitment for funding from the Congress. However, the attractiveness of this proposal is that, if structured correctly and executed properly, it could, over a long-term period, dramatically improve the competitive position of the United States in the world.

In developing such an effort it would be useful to study similar, but smaller scale efforts which are already underway. During the past ten years a significant number of small business incubators have been developed throughout the country. These vary greatly, however, the basic purpose of most of these incubators is to bring technological and business expertise to small and emerging businesses. Unfortunately, almost all of these incubators are located in urban areas. As a result, NRECA recently launched an initiative to develop incubators in rural electric service areas of three to five states. This will be an intensive pilot program which we will be working on during the next two year period.

In addition to the incubator model, the Committee may also wish to study other examples of technology transfer and assistance. One of these is a recent initiative of the Southern Growth Policies Board (SGPB) which will seek to use community colleges in thirteen southern states to provide assistance to rural businesses. We have met with Stuart Rosenfeld, Director of SGPB several times on this project which seems to have a lot of promise.

Fifth, Retraining and Education: There is no doubt that the future economic growth, well-being, and competitive position of the United States will depend upon the education and retraining of our citizens. In the new economy, education must become a lifelong undertaking with retraining required as more and more people work in several different fields during the course of a career.

In the areas of elementary and secondary education, too many rural schools do not have adequate resources to hire teachers to provide instruction in many of the areas of math, science, and languages. This puts rural students at a distinct disadvantage. One partial way of addressing this problem is by using satellite and other technology to bring two-way interactive instructional programming to rural schools. A number of rural electric cooperatives have worked with local school districts to do this, and have donated satellite equipment to these schools.

NRECA has worked with the Senate Agriculture Committee to develop a "star schools" program that would be tailored to the needs of rural communities. Under this proposal, which was developed at the request of the Senate Agriculture Committee, funding would be provided to partnerships which would include: (a) local rural electric and telephone systems, or other local entities; (b) the National Rural Telecommunications Cooperative; (c) educational institutions; and (d) other organizations which could assist in increasing the level of participation in this program by rural schools, vocational and adult learning centers, health care or other organizations which can benefit from these programs. This provision has received strong bipartisan support from the Senate Agriculture Committee and is being considered as part of a rural development bill.

Mr. Chairman, I have brought with me a publication which NRECA has recently completed. It is entitled Strengthening Rural America: America's Rural Electric Systems at Work, and includes some 25 case studies of local projects in which rural electric systems have worked with others in their communities to provide development assistance. Our purpose in developing this publication was to use it as an "idea sharing" vehicle among rural electric systems. I hope that the Committee will also find it to be of some value.

Beyond the specific areas which I have addressed, I believe that the fundamental, underlying questions with respect to the federal role in rural development which must be addressed over the long-term are:

- Whether we, as a nation, are willing to permit large numbers of our rural communities to "dry up" and become increasingly "left behind" in the economic transition and growth of our nation.
- Whether (and how much) creativity and intelligence we are willing to devote to revitalizing our rural economy, and to what extent are we willing to employ federal resources, or restore past levels of rural development funding, perhaps in more effective ways, if that strategy becomes necessary and wise.

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today. Again let me emphasize my appreciation and support for the leadership you have shown in addressing this important matter.

STRENGTHENING
the rural economy

AMERICA'S RURAL ELECTRIC SYSTEMS AT WORK

STRENGTHENING the rural economy

AMERICA'S RURAL ELECTRIC SYSTEMS AT WORK

This publication contains a sampling of the efforts to strengthen and diversify the rural economy. We have provided snapshots, a glimpse of what's happening—and can happen—in the countryside.

America's rural electric systems are proud of their role in these efforts. Sometimes the co-op is involved from the beginning and actively participates in every phase of a community development project. In other instances, the co-op is part of the support system, quietly paving the path to success. In every case, the role of the co-op is guided by the wants and needs of the consumer-owners.

Our thanks go to all who gave of their time to share, in words and photography, the stories of their communities. With their help we've been able to demonstrate the broad and diverse range of the important efforts to strengthen the economy and improve the quality of life in rural America.

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Rural electrification stands as one of America's economic development success stories.

There was a time not long ago when only ten percent of the countryside had electricity, and there was little hope for change, until, in 1935, the federal government formed the Rural Electrification Administration (REA) to provide financing and technical assistance.

Rural people matched this effort in "sweat equity." They were the ones who organized their neighbors and began the difficult job of stringing the wires across the countryside, actually running their own rural electric cooperative. Today, as a result of this "experiment," there are 1,000 consumer-owned rural electric systems in the United States providing reliable electric service for 25 million people.

Local people own and control their electric systems. They elect the board of directors who sets policy and guides the cooperative in its service to the community.

The work of rural electrification has consistently attracted highly qualified leaders, people who are likely to be deeply involved in other leadership roles. They are church deacons, school board members, government officials, directors of banks and service organizations or any of a number of institutions that make up the fabric of the countryside. They are community leaders, and many community improvements and rural development projects are the direct or indirect result of their leadership and the co-op's involvement.

The fact is that rural electric distribution systems are experts in cooperation at the local level, and their work is buttressed by their state, regional and national alliances. Their memberships in statewide associations, the generation and transmission cooperatives (G&Ts), and the National Rural Electric Cooperative Association (NRECA) extend the spirit and strength of cooperation. Together it's quite a network, one adept in working with government agencies, universities, corporations and nonprofit organizations.

Characteristics of Success

Through trial and error, we have identified some of the characteristics of successful economic development projects.

- We've found that generally the most beneficial and long-lasting results are achieved by starting out small. It is often more realistic to undertake a project that results in a few jobs rather than expend energy and resources pursuing a large employer. Small successes can snowball into more small successes which build local vitality.

- We've learned that the success of any rural development effort depends on the leadership involvement and commitment of the local people and organizations. Without grassroots support, no government program or any other effort, no matter how well intentioned, is likely to succeed.
- We've found that the "can do" attitude is essential to rural development. Those who are easily overwhelmed and resort to an "ain't it awful" outlook are bound to reap more of the same. Those who succeed are people who can take that first important step forward.

We're all painfully aware that the economy of far too many rural areas remains depressed, still suffering from failures in agribusiness, mining and energy-related industries. The economic turnaround common to many urban locations, particularly along the nation's coastlines, is seldom found in rural America. As the economy undergoes major transitions, the danger that rural America will be left behind is real. The trend is there, but this does not have to continue. Local organizations can work together, accurately assess their communities' needs and assets, tap the necessary public and private resources, and roll up their sleeves to get the job done.

We in the rural electrification program have deep roots and a sincere and vested interest in improving the quality of life and the economic condition of the communities we serve. We are ready and willing to continue joining in partnerships with others, to work toward a revitalized rural America.

I salute the economic development work of rural electric systems around the country and hope as you read this booklet you will come to share our pride in the work now underway, as well as our confidence in a greater number of success stories in the days to come.

Bob Bergland
Executive Vice President and General Manager
National Rural Electric Cooperative Association

INFRASTRUCTURE: FOUNDATION FOR GROWTH

Fire Protection Saves Lives and Dollars

How many half-burned buildings have you seen in rural areas?" asks Ernie Faucett, director of development for Arkansas Electric Cooperative, the statewide association of electric co-ops in Arkansas. "Mostly it's a pile of rubble with a chimney left standing. We want to see our people go to sleep at night with the same feeling of security and comfort as their city neighbors."

That in a nutshell is why Faucett got involved in developing a highly successful program to bring fire protection to rural Arkansas. And he asked a lot of tough questions along the way. Of the State Insurance Commissioner, he asked how many households would be affected, and what would the average savings per household be if there were fire protection in rural Arkansas. The answer: 200,000 households at $80.00 savings per year.

"Now, multiply $80.00 by 200,000 households and that is $16 million annually that would remain in the pockets of Arkansans instead of being paid to an out-of-state fire insurance company. *That* is economic development," says Faucett, recalling that this was the basis for gaining wide support as well as enabling state legislation for the comprehensive plan.

For fire trucks, U.S. surplus vehicles were brought up to mechanical standards and painted by prisoners at a State Department of Correction facility, then sent on to the State Forestry Department to be equipped with tanks, hose reels and ladders.

The statewide scope of the program allowed all counties to use a common system, so training and equipment were standardized.

In the beginning, Arkansas had only 50 rural fire departments. Today, ten years later, there are more than 900.

"We want to see our people go to sleep at night with the same feeling of security and comfort as their city neighbors."

The statewide association has also been deeply involved in developing water systems for rural Arkansas. Providing needed services like fire protection and safe drinking water takes a lot of time and effort. "They're not what I'd call glamorous programs," says Faucett, "but if you work hard to provide these services, you will create a fertile area for long-range residential and industrial growth for years to come." ■

Local Electric Co-op Builds and Operates Water System

The results of the Bullock county survey were clear. The people of this rural Alabama area wanted a water system, and Dixie Electric Co-op took on the job. With the help of the co-op, the water system, which served 500 consumers in 1975, now has more than 2,000 people on line.

"It makes good sense for Dixie to help the people in Bullock County," says former Manager Jim Vann. "Dixie's business organization—its billing procedures, its operation and maintenance facilities—help reduce the cost of providing water."

Funding the four million dollar water system was a complicated process involving ten separate funding applications and five federal agencies, each with different funding procedures and legal requirements. "It became evident to us that there's myriad opportunities, but at best, most communities do not have the expertise to avail themselves of these federal funds," says Vann.

Dixie constructed the water mains and continues to administer, operate and maintain the system under contract with a local water authority. The people working on the water line are the same people who climb the poles and run the electric co-op.

This arrangement just plain makes sense, according to Vann. "As the consumers have needs, it's logical to use the rural electrics to assist in this and other economic and rural development efforts." ■

Improving Oklahoma Schools With Satellites

Classes by satellite are now available at all 23 high schools in Cotton Electric Co-op's service area in southwestern Oklahoma, thanks to the co-op's contribution of satellite dishes.

At Indiahoma High, limited resources forced a choice between buying some computers or a satellite antenna, so the offer from the co-op was "like asking a man dying of thirst if he wanted water," recalled Superintendent Gary Tyler.

The school also faced the transfer of students and state aid to other schools offering language courses. Now by setting up cooperative arrangements with other schools and by using the new satellite dish, Tyler can offer three foreign languages. "How many high schools with 245 kids can say: 'We can offer you German, French or Spanish?'"

Helping rural schools stay competitive is an example of how co-ops can continually apply their imagination, creativity and organizational skills to today's concerns while making a tremendous investment in the future. ■

An Advocate for Better Health In Rural Texas

Formed in June, 1985, the Texas Rural Health Association (TRHA) goals are to promote rural health as a distinct concern in Texas, to serve as an advocate for rural health and to encourage the development of adequate health services in the rural areas of Texas. It was just the kind of organization that Brazos Electric Power Cooperative of Waco had been looking for.

"There were so many needs in the health arena, and too little time and money to make any kind of impact on an individual basis," says Jim Shannon, public relations representative for the generation and transmission cooperative, "We began looking for a statewide organization that we could support to go at this problem in the most effective way."

Once Shannon expressed an interest, the association put him right to work. He was named chairman of the legislative committee at the TRHA annual meeting in 1986. Under his leadership, the committee determined the priority issue to work on in the legislative arena—groundwater contamination. Statistics indicate that as many as one in five Texans are drinking water from private groundwater sources that are not monitored or regulated by any state agency for their potential health effects.

Through his groundwater safety work, Shannon built a network of contacts with health and agriculture organizations across the state, gaining their support for a bill that will come up for vote in 1989.

"Rural people rely on their electric cooperatives to take the lead in this kind of rural development effort"

If the bill passes, it will be another step down a long road of improving health conditions in rural Texas. Perhaps the next step will be to help provide licensed doctors and pharmacists for the ten rural counties that now have none—or a community hospital for one of the 43 counties in Texas that go without.

Meanwhile Shannon has been visiting with distribution cooperatives across the state to encourage more local cooperative membership in TRHA. "Rural people rely on their electric cooperatives to take the lead in this kind of rural development effort" says Shannon, "It's all part of improving the quality of rural life, and that's what we've always done best." ■

Water Line Will Promote Growth in Southern Indiana

A water line from the Ohio River in Jefferson County to Decatur County and then to Dearborn County would open the area to new industrial development. Steve Hilton, seated, coordinator of promotion and economic services for the Indiana statewide association of rural electric systems, discusses the project with (from left) Sharon Wilson, manager of area business development for Clark County REMC, and engineers John Caton, Grove Associates and Jim Frazzel, Triad Associates.

Sweat Equity Rebuilds Houses In Rural Wisconsin

In the summer of 1984, a tornado hit Barneveld, a town of 600 in south central Wisconsin. Nine people were killed, the business district was leveled and most of the houses were badly damaged or destroyed.

Rural Housing was among the organizations that helped the community secure a Farmers Home Administration (FmHA) grant for new "self-help" houses. Owners invested sweat equity—the husband and wife, supervised by a construction expert, each put in 20 hours a week to build their new house.

Rural Housing was born in 1970 as the Wisconsin Rural Housing Cooperative, an outgrowth of the statewide organization of rural electric co-ops, Wisconsin Electric Cooperative Association. It was formed in response to the co-ops' desire to help low-income rural people get decent housing. In 1983, it was reorganized into Rural Housing, but the rural electric connection is not broken. Leroy Rose, general manager of the Wisconsin statewide, is on the agency's board of directors.

According to Rural Housing, more than 58,000 rural Wisconsin families live in deficient housing, a figure that's on the rise, exacerbated by the farm crisis.

Rural Housing does not directly fund housing projects, but matches community funds with government sources of funding.

Barneveld has been rebuilt and the agency is starting a new self-help housing program in another nearby rural community. Also this year, it is getting home repair help for low-income people in rural Crawford and Vernon counties through a FmHA housing preservation grant.

To maintain effective advocacy work for low-income homeowners with limited staff and budget, Rural Housing has concentrated on networking with other organizations, such as the rural electric systems, to train communities to better use local resources to solve housing problems.

Rural Housing helps get housing programs started, and the communities run the program by themselves. It's the kind of sweat equity investment that pays off for rural America. ■

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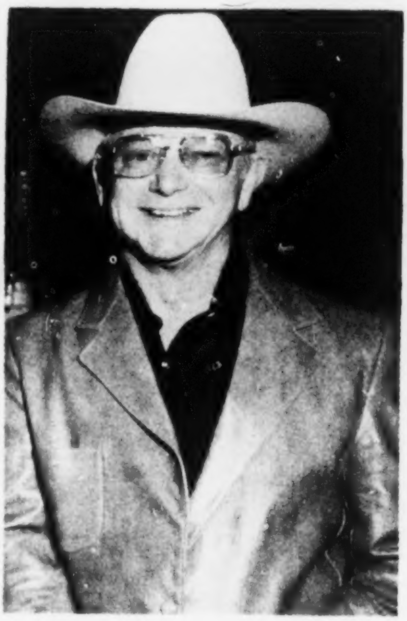
COMMUNITY LEADERSHIP

Discovering Local Assets

Since 1970, Fisher County, Texas has lost 750 of its 6,400 residents. The existing basis for the local economy, a gypsum wallboard plant and cotton farming, doesn't generate new jobs, so high school seniors pack up and go right after graduation. It's a version of a story that's repeated time and time again in rural communities across the country. After all, the living's not so easy if you can't find a job.

But this west Texas county isn't interested in sounding like another sad, old song. Two years ago, some of the leaders of Fisher County, including Parker Wetsel of Midwest Electric Co-op, decided it was time for a change of tune.

First, they formed an economic development commission and started looking at what there was to build on, who made things happen and who would help. When the commission contacted Steven Carriker, the majority whip of the Texas House of Representatives and Fisher County native, he helped bring in a resource team—people with economic development experience who could help get things started.



Parker Wetsel, manager, Midwest Electric Co-op

The team, including a representative from the National Rural Electric Cooperative Association, interviewed 130 Fisher County people to collect ideas on what might be done to produce more jobs. After sifting through the ideas, the resource team divided them into projects the community could tackle and projects that would require outside help. Among the community projects were constructing historical markers, applying for a grant for historic renovation of Main Street storefronts and expanding the county fairs and rodeos. Larger projects included developing a business "incubator," adding a livestock processing plant, and developing and marketing quail hunting.

Through this process, the county discovered it was already contributing to the community assets pool. For example, the county sponsors a doctor at the local hospital and is considering similar sponsorship of other professionals as a way of bringing its college-educated young people back home. A local banker and accountant had determined that 60 percent of the checks cashed in a year were for out-of-county purchases, prompting local merchants to find out why and work together to regain lost business.

Today the people of Fisher County see dollar signs when they look at their scraggly mesquite trees, their cotton burrs and cactus. The mesquite can be made into chips and sold to restaurants featuring mesquite-grilled steaks. The cotton burrs can be compacted into fireplace logs, and the cactus plants and other native foliage can be marketed to landscaping nurseries.

And perhaps the most ambitious idea is to turn Fisher County into a retirement area, to share the quality of life, the clean air and the sunshine with some new neighbors.

You may not find a better story of rural development in the making than the one in Fisher County. It's not particularly spectacular; that's the point. ■

Essential Services Unite in Missouri

The organizations that provide fire protection, water and sewer services and electricity to rural Missouri turn out to have a lot in common. That's what Bob Alderson of Boone Electric Co-op and Frank Stork from the statewide, Association of Missouri Electric Co-ops, discovered as they pursued ways in which the organizations might join forces to better serve their common membership. Joint mailings, and in some cases joint billings, were among the possibilities that sprung to mind—both as a cost-saving factor for the organizations and as a convenience to their members. There would certainly be legislative issues of common concern and perhaps a common ground to fulfill financing and insurance needs. Out of these ideas the Rural Missouri Essential Services Association (RMESA) was born to formalize the concept and work toward common goals. It held its first annual meeting in the summer of 1987.

Through the Missouri statewide, the group is able to monitor legislation, tracking the bills of common concern and is actively engaged in building membership. Now at 123 consumer-controlled water, sewer, fire and electric systems, RMESA has its sights set on 400 members.

Boone Electric Co-op is serving as a model for progress at the local level. Already there's a new building on co-op property that serves as the headquarters for the sewer system, and, using the co-op's data processing services, both the sewer and electric bill go out together.

"Having all the essential services on one piece of property would be a tremendous convenience for new consumers," notes Alderson. "They could get all the necessary hook-ups accomplished without having to run all over the county."

"It's a matter of doing what makes sense," says Stork. "It's the right thing to do." ■

The Other Side of the Mountain

In the late 1950s, the farm attrition had taken its toll on Jeffersonville, Vermont, a rural community on the other side of the mountain from Stowe, a ski resort community. Jeffersonville had a small, community-run ski lift, and to some people, was a more appealing place to be. Tom Watson, then president of IBM, was among the visitors who took a liking to the place and played a major role in developing Smuggler's Notch, as it is known today.

On the local front, Walter Cook, then manager of Vermont Electric Co-op, served on the local and state development boards and worked toward helping the area grow and prosper. Roland Vautour, presently USDA's Undersecretary for Small Community and Rural Development, served as the general manager for the ski village. The village was actually built around the ski lift. The co-op put in all underground service, and all the shops, which were locally-owned, expanded as the village grew. Since its development, Smuggler's Notch Skiways has been a training ground for Olympic medal winners as well as a retreat for less renowned fans of winter sports. Vautour recalls the effort as a prime example of a successful and visionary development project in which "the community leaders and the co-op's management were driving forces in developing the area." ■

Derl Hinson, recently named executive manager of Georgia Electric Membership Corporation, the statewide organization

Beginning at the Beginning

National statistics belie the miseries of Noxubee County, Mississippi. Once a land of cotton farms and cattle ranches, the transition away from an agricultural economic base has been particularly painful. Population dropped, and there was a net loss of 1,000 jobs from 1960 to 1980. In the early 1980s, the unemployment rate was in the 20-percent range and half the population was below the poverty line.

A big barrier to change was attitude. The county was a collection of independent communities, divided by race, income level and location. On more than one occasion small industries that wanted to locate there were turned down by the people who had no economic incentive to invite change and little concern for those who did.

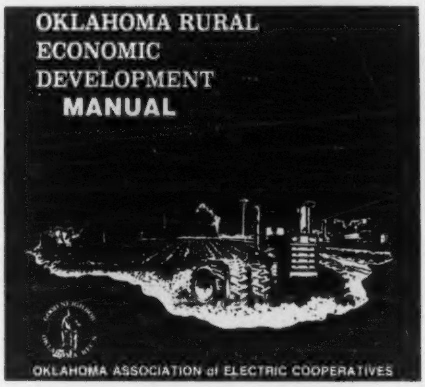
In 1985, Derl Hinson, then manager of Four County Electric Power Association, invited 40 community leaders together to talk about economic development. He explained that the co-op and the Tennessee Valley Authority (TVA) would give all the help they could, but the people would have to get the job done. "Without local people working at economic development, it won't happen," says Hinson.

The people responded to the challenge and agreed to form a county-wide development authority. The desire to change for the better was building.

At a public meeting held some two months later, 250 people gathered. Differences were put aside and the work was begun.

With the help of Four County and the TVA, Noxubee County has put together a development strategy that covers everything from industrial inventorying to fighting illiteracy to building roads and rural sewer systems. A storm window plant and a paper mill have since located in Noxubee County—and the work goes on.

"It has changed from an era of apathy to one of enthusiasm and cooperation with people working together in ways nobody ever dreamed possible," says Hinson. ■



OKLAHOMA RURAL
ECONOMIC
DEVELOPMENT
MANUAL

OKLAHOMA ASSOCIATION of ELECTRIC COOPERATIVES

Providing Training in Economic Development

More and more, communities are making a formal assessment of their assets and taking a strategic approach to economic development. Often it's the co-op that shows them how.

In Oklahoma, the statewide association of electric cooperatives, in conjunction with Oklahoma State University, the RedArk Development Authority and the Verd-Ark-Ca Development Corporation has produced the "Oklahoma Economic Development Manual." The manual begins with an inventory of local services and facilities and takes the reader step-by-step through the economic development process.

The textbook was just the beginning. "Economic Development in Rural Oklahoma" was the topic of the seminar introducing the manual to member-cooperatives. With this special training and the economic development manual, the co-op managers now have valuable tools they can share with the communities they serve. ■

ATTRACTING INDUSTRY

Profile of a Professional

"You can't go it alone and be successful. You need a cooperative attitude."

That's the key to economic development according to Tom Monks, manager of economic development at Central Electric Power Cooperative, the generation and transmission co-op serving eight Missouri distribution systems.

Formerly on the staff of the Missouri Department of Economic Development, Monks brings a wealth of experience to the job. He's familiar with state agencies and has a depth of knowledge in state financing opportunities. He knows what's available. He's worked with the people of the University of Missouri extension services; he has called on the faculty of the engineering school there for help with design and engineering problems. He knows where to go for information.

Tom Monks, manager of economic development, Central Electric Power Cooperative

This is the kind of hands-on technical assistance he provides to industrial prospects.

But Monks is by no means a one-man band. Central has been a sponsor of the Missouri Community Betterment Program for many years and Monks works in a consultant role with this organization to help both the companies and the communities develop economic development projects. For example, a carbon production plant now under construction promises to employ 60 local people. It was the result of putting the idea man together with financing people, together with an individual with operations experience. Monks credits Bill Hayter, manager of industrial sales at Central and Gib Keith, director of economic development at N.W. Electric Power Cooperative, a neighboring G&T, and the member distribution cooperatives for the successes in the economic development arena.

He travels the service area of 26 counties and some 100 communities and works with the co-op managers on a daily basis. "I talk to the co-op managers more than I talk to my own boss," says Monks.

In process at Central is a data bank listing the financial resources, the elected officials of the area, existing industries and community profiles. Soon to be available to Central is the state's computerized information system, which covers everything from tax and finance to education and training programs offered through the state.

Rural economic development relies on people like Tom Monks, who continues to build and expand the resources available for the people he serves. ■

Tokico Construction Underway in Kentucky

Under construction near Berea, Kentucky, is the Tokico plant, which manufactures shock absorbers, and will employ 100 people. "The choice of this site was definitely driven by economics," says Blue Grass Rural Electric Cooperative Corporation Manager Jack S. Taylor, member of the development team. "The Tokico people wanted to know every detail. We had to be very well prepared." ■

A New Industry for Tabor, South Dakota

When Iowa businessman Karl Habena lost his golf bag manufacturing plant in a fire, he was determined to start over again, and fulfill a dream at the same time. Ever since he worked in southeastern South Dakota, he vowed to return, build a home on a lake and indulge in some hunting and fishing. He knew that it would be a good place to do business as well.

Habena settled in Tabor, South Dakota, a community of 460 that was founded on agribusiness and was feeling the effects of the crippled farm economy.

With a handful of employees, Coyote Sports began making golf bags again. Soon Habena's company was employing 17 people and providing extra income for families in a community where it was badly needed.

In 1981 Habena decided he was ready to retire. When a group of local businessmen, David Westbrock, general manager of Bon Homme-Yankton Electric Cooperative among them, caught wind of Habena's intentions, they tried to buy the business. They knew Coyote Sports had become too important to the local economy to let it close. Though this purchase attempt didn't work out, Habena found an ideal team of buyers in Bob Wells and Larry Engle who had been working in the industry for a number of years. Both shared the dream of working on their own.

After Wells and Engle took over, Coyote Sports landed several major contracts and grew to employ 55 people. Among the original selling points were the quality of the workforce and the over-all business climate—factors that haven't changed according to Wells. "These people care about their work. They're reliable and give you an honest day's work. And the attitude of state and local government is extremely favorable towards business. I can't think of any negatives for doing business here."

The business recently expanded and now employs 67 people. Wells expects that the company will continue to hire additional people—big economic news for a town of 500, especially during tough economic times.

"We are very pleased to have a sound business like Coyote Sports in town," says Westbrock on behalf of the co-op, "They employ a lot of people who might have had to leave the community otherwise." ■

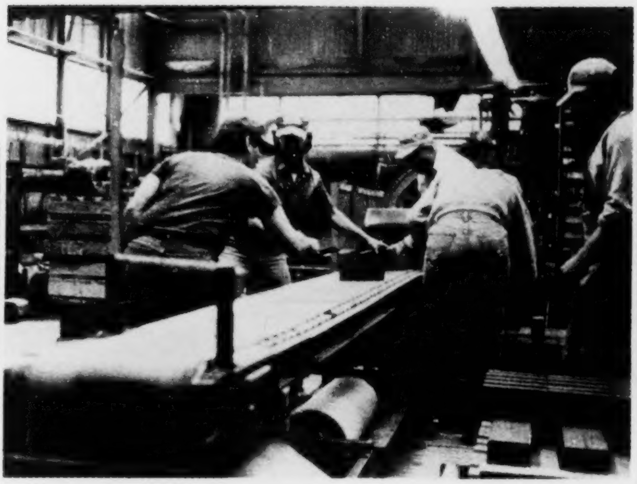
A Leader in Economic Development

One of the members of the electric cooperative network that has made extensive resource commitments to economic development is Olglethorpe Power Corporation, a generation and transmission co-op serving 39 distribution cooperatives in Georgia.

Over the past 12 years, Dave Morgan, vice president of economic development for Oglethorpe, has built a department of 25 professionals dedicated to encouraging industries to locate in rural Georgia. Through their computerized databanks, BuildingBank and SiteBank, they have the most extensive listing of industrial sites in the state.

"Tell us what services you need and we will provide you with the best information possible," Morgan tells industrial prospects.

This kind of technical assistance has led to 300 companies locating in their service area, creating economic opportunity for the citizens of rural Georgia. The Oglethorpe staff helps communities identify their needs and assets and develop strategies to make the fullest use of available resources. Their skills and technical expertise are offered freely and Oglethorpe stands as a leader in sharing its experience with others. ■



Creative Financing for Business

We would not have been able to put it together without the help of the REC,” says Dick McHose, a principal of the new LeHigh Clay Products company in LeHigh, Iowa. Beyond offering what McHose deemed “very competitive electric rates,” Greene County REC put together a creative financing package that made the purchase of the plant possible.

Before it closed, the brick and tile plant had been the system's largest user of electricity over a twenty-year period. Because the plant was on co-op lines, it had been assigned patronage capital just like other co-op consumer-members. (Patronage capital represents the amounts by which a co-op's revenues exceed its expenses, amounts which are assigned to each consumer based on the consumer's contribution to revenues.)

The co-op agreed to make a loan to the buyers with the patronage capital—which had been assigned to the new owners as part of the purchase agreement—as collateral. This became the springboard for securing all other necessary financing. With the help of Craig Hamilton and Jack Bailey of the Iowa Area Development Group, comprised of four Iowa generation and transmission co-ops, the new owners were able to get financial assistance from the natural gas supplier, the Small Business Administration, as well as secure a state grant.

“The fact the co-op took the first chance, and that Craig and Jack would say ‘it looks good to us’ definitely made the difference in our getting the financial help we needed,” says McHose.

In its first year LeHigh has already reached its two-year projected employment of 20 people. ■

A “Spec” Building in Iowa Expands Economic Base

There are a dozen new “start-ups” on Main Street in Corning, Iowa—visible economic improvements despite several successive years of distressed farm economy. But Corning, population 1,900, has long been the kind of community that recognizes the need to diversify its economic base.

This diversification began in the early 1970s when the Blue Grass Industrial Park was just beginning to take shape. The idea was to build a 20,000 square-foot “spec” building to attract small industry. Adams County Co-op Electric anticipated the energy needs and relocated a planned substation to this site.

With these facilities in place and a lot of hard work on the part of the Adams Community Industrial Development Corporation, three industries moved into the park over the next decade. Today they provide more than 400 nonfarm jobs.

Dale (Bud) Wynn, Jr. serves on the board of the development corporation and is a director of Adams County Electric. He was among the community leaders who launched the fund-raising drive for a second “spec” building. The drive brought in more than $200,000.00 for the building fund, a tidy sum considering there are only 5,600 people in all of Adams County.

When an industry comes to Corning, it will continue to benefit from the community's local development efforts, all designed to help boost the economy and see to it that there's yet another start-up on Main Street. ■

South Carolina's Award-Winning Efforts

The Industrial Development Research Council, which sets the standards for the industry, presented Central Electric Power Cooperative an award for the G&T's study of the South Carolina workforce as seen from the perspective of South Carolina manufacturers.

Because the state has so many labor-intensive industries, national figures on worker productivity just didn't tell the whole story. As part of its statewide development effort, Central got involved.

A 37-item questionnaire was sent to 1,200 plants in a random sample of the state's industries. The questionnaire covered all aspects of worker productivity, including labor relations and technical competence.

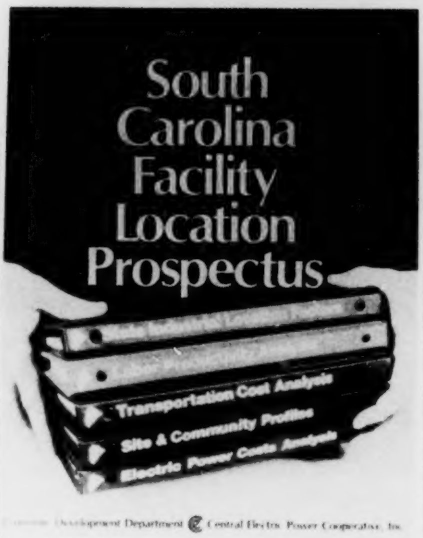
In an impressive 20-plus percent return, firms reported little or no difficulty in attracting applicants with appropriate education and skill levels for production jobs.

The study results have become part and parcel of Central's other marketing tools like the South Carolina Facility Location Prospectus, which provides a thorough presentation of the state's assets including a look at the many appealing lifestyle factors. Central also has an aggressive marketing program, advertising in four national industrial trade publications.

"Every new location is a team effort," says Fred Gassaway, Central's director of economic development, "and most of the successes have come about by the state or a community bringing us in as a team member to help solidify the project."

Central Power and its member cooperatives also offer an economic development rate as a further incentive to industrial prospects.

"Economic development is very much a process that relies on the total available resources," Gassaway adds. "If co-ops can play a part, they benefit." ■


South Carolina Facility Location Prospectus
Transportation Cost Analysis
Site & Community Profiles
Electric Power Costs Analysis

Economic Development Department Central Electric Power Cooperative, Inc.

Joining Forces in Michigan

Northern lower Michigan has gained a great reputation as a vacation spot. The community takes pride in this image but wants others to know that the area is also ripe for other kinds of economic development. Promoting the area to industry is the job of North Force.

North Force, Inc. began in 1986 with 40 professionals with economic development interests, serving 30 counties in northern lower Michigan. Members include community growth alliances, public utilities, industry leaders and industrial development professionals who are dedicated to working with business and industry to provide technical assistance on financing, building and site location, employee training and area information.

Represented among the group are seven rural electric distribution cooperatives, the generation and transmission co-op and the statewide association which serves them.

"North Force is a team involving everyone from the private sector to local and state government. And we've begun our work by putting our available resources into action," says Ray Kuhl, executive vice president of Michigan Electric Cooperative Association, referring to the *North Force Magazine*.

Kuhl serves on the editorial advisory board for the magazine, which is circulated to some 10,000 businesses identified by North Force members as prospective commercial residents of the area.

Consistent with the mission of promoting the area to potential businesses, Kuhl and other North Force members go where the prospects are.

"Because the area produces a wealth of fruits and vegetables, it makes sense to interest the food-processing industry in our area. To do so, we need to become active in selected industry trade shows and meetings," says Kuhl, "It's a pro-active approach to economic development." ■

A State Developer's Perspective

"When you're in the trenches, you don't find many people shoveling the dirt," says Jim Stivers. He's a project coordinator for the Industrial Development Division of the Kentucky Commerce Cabinet and gets the electric co-ops involved early in a project. "I can count on them to be in constant contact at the local level and to help keep the ball rolling."

Sometimes it's a matter of providing constant encouragement—to give people hope and motivation as well as direction. A case in point is Wolfe County in eastern Kentucky, one of the lowest per capita income areas in the United States. This dubious distinction didn't stop the community leadership from pursuing Stivers' counsel, nor did it stop him or the co-ops he called on from digging in to help.

When invited to the county courthouse to speak on economic development, Stivers knew the G&T and the distribution co-op, East Kentucky Power Co-op and Licking Valley Rural Electric Cooperative Corporation in this case, would be there. "There must have been 90 people there," he said, amazed at the turnout for such a sparsely populated area.

"I didn't promise them a rose garden, by any means, but they do have a willing labor force and they're located near the mountain parkway. Above all, it will take tenacity and patience."

To date, the community has formed the Wolfe Industrial Development Association and hosted its first industrial prospect, a minority-owned government supplier eligible for a grant to operate in an economically deprived area.

So far it's moving right along. The owner conducted a demonstration for the community, training two people in a single afternoon to do the kind of work she needs.

"It's all networking and creative thinking, with a sharp eye open to reality. The co-ops are very much in touch with these concepts."

If successful, the company would become a nonprofit organization with 52 percent of the business owned by the community and a provision for the sale of the remaining 48 percent to the community in five years. It would become a revenue-generating source for the community to further economic development in the area, as well as providing the immediate benefit of as many as 100 much-needed jobs.

"There are still some vital details to work through, and I can't always go back as often as I'd like," says Stivers, "but I can rely on the co-ops to be there. They'll go beyond technical assistance in terms of electric rate offerings. It's all networking and creative thinking, with a sharp eye open to reality. The co-ops are very much in touch with these concepts." ■

HELPING LOCAL BUSINESS

Made in the USA

Steffes and Son Manufacturing Company, a family-owned job shop operating in Dickinson, North Dakota, has been characterized as being able to build anything out of nothing. It builds its own tools, does a great deal of custom work and has developed some products that can be mass produced, such as snow mobile skis, hopper bins and metal parts for office furniture. What was needed was another stable product that could be mass produced.

Meanwhile, Basin Electric Power Cooperative was in search of a domestic supplier of Electric Thermal Storage (ETS) heaters (essentially a home heating unit containing ceramic brick that can be electrically heated during off-peak hours). Basin had been working with the University of North Dakota to come up with a formula for the brick that would use local mineral resources instead of the imported material commonly used.

A combination of the efforts, skill and the resources of many to meet a need culminated in the expansion of the Steffes' business.

Research and development was supported by grants or loan guarantees from Basin Electric, the National Rural Electric Cooperative Association, the Western Area Power Administration and the North Dakota Energy Conservation Program.

Financing was arranged through a local bank, the Small Business Administration and the North Dakota Community Development Block Grant Program. All told, more than $1.2 million in loans and grants were put together to purchase the necessary facility and equipment and get Steffes' new ETS division started.

Just the development of the formula for the brick was a major undertaking. "We tested more than 100 formulas," says ETS coordinator Brian Fosaaen, referring to the work with the university. "It was a matter of trial and error, but just about the time we'd get discouraged, Bill Schott or Duane Bye from Basin would give us the push we needed."

The field testing for the heaters was a very important part of the project, too, and was accomplished through Basin's member distribution co-ops, which installed the heaters in single-family homes throughout their service areas.

A year and half later, Steffes ETS is producing 30 units a day, providing 35 new jobs in the community and putting a brand new American-made product on the market. Says Fosaaen: "Basin has been tremendous in support of our efforts." ■

". . .just about the time we'd get discouraged, Bill Schott or Duane Bye from Basin would give us the push we needed."

Tourism in West Tennessee

More and more tourists are now visiting Reelfoot Lake and local area busineses and residents are reaping the benefits.

Since 1981, people like Floyd Roberts of Gibson County Electric Membership Corporation and other community leaders have been working to help raise the standard of living for the depressed west Tennessee area. "We felt anything we could do to create employment opportunities would be worthwhile," says Roberts of the efforts.

They had a big asset in Reelfoot Lake, a natural lake covering 18,000 acres and adjacent to a state wildlife preserve. In fact, the area is said to be the greatest hunting and fishing preserve in the nation. Reelfoot Lake was once one of Tennessee's major tourist attractions, but the local ferry service across the Mississippi had long ago discontinued service, and a new bridge had routed potential tourists away from Tiptonville and the Reelfoot area.

The resurgence of Reelfoot became the focus as the local people put together their development strategies. They formed the Reelfoot Chamber of Commerce and the local interest mounted. The Tennessee Valley Authority (TVA) donated one of its surplus rock-hauling barges in an effort to help reopen the ferry service, and work began on bringing the barge up to passenger standards.

The restored home of native son and song composer Carl Perkins was put in place, and a museum was created for the man who wrote "Blue Suede Shoes" and many other famous songs.

A block of buildings was purchased by a local businesswoman, who developed a center housing the museum, a dress store, arts and crafts and souvenir shops.

Today there are restaurants, motels, picnic grounds, a 600-seat auditorium, cruise boat tours and campgrounds—all ready to serve the public. And there are a variety of new jobs from store clerks to fishing guides with 80 to 100 jobs estimated to come out of the revival of tourism in west Tennessee.

"It's a region that was too long forgotten," says Roberts, "and it's really gratifying to see Reelfoot back up and buzzing." ■

The Business Incubator

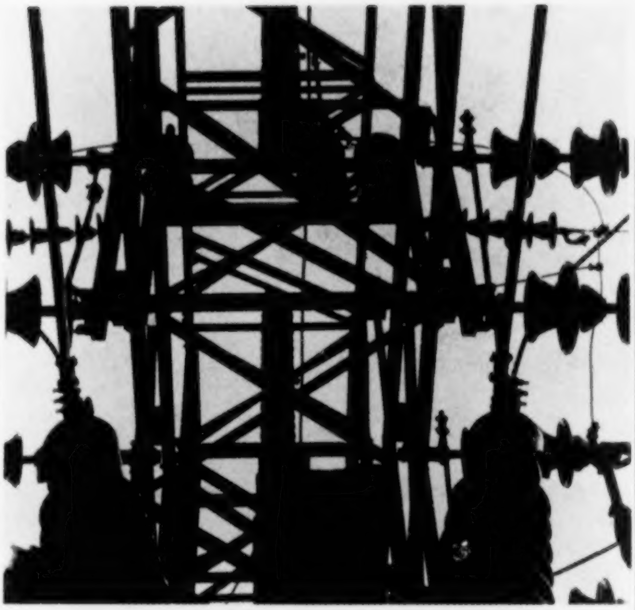
Another way to rural development is the business incubator. As the term implies, the business incubator provides a little help to get started—to help turn an avocation into a vocation and give new, small enterprises a place on Main Street.

Typically an incubator begins when an abandoned factory, school, warehouse or like building is renovated and converted into usable space for small business entrepreneurs. For a small fee, the incubator management provides support services such as building management, business advice, computer support, answering service and accounting. This permits the business person to concentrate on what he or she does best and greatly increases the prospect of success.

In Pennsylvania, a study funded by the National Rural Electric Cooperative Association through its member system Somerset Rural Electric Cooperative, determined the Somerset community to be a prime candidate for a business incubator. The plan is to purchase a 100-acre industrial site and construct a 20,000 square-foot incubator to house the new businesses, helping to give them a head start.

County Commissioner Brad Cober reflected the enthusiasm and hope of the Somerset community: "You're talking about a single site that will be developed into a full industrial site."

Already five businesses have expressed interest in using the incubator. ■



Economic Development Rate Approved in Indiana

Hoosier Energy Rural Electric Cooperative and Wabash Valley Power Association and their member distribution cooperatives have instituted an economic development rate, and the Indiana Utility Regulatory Commission, the state organization that regulates rates of utilities, approves. It issued a statement to that effect: "A review of the evidence of the petitioners and the public indicates an agreement that economic development rates can be beneficial to the utility's other rate payers and to the economy of the service area."

The rate is designed to produce revenues sufficient to cover the cost of serving the large consumer, and the commission observed, "no other customers would be subsidizing the lower rates."

The co-ops requested the special rate to help in their efforts to attract large industrial consumers, and, because attracting industry is such a highly competitive endeavor, the rate was designed to compete favorably with large industrial rates of other utilities in the region.

". . . economic development rates can be beneficial to the utility's other ratepayers and to the economy of the service area."

Among those testifying on behalf of the co-ops were local Chamber of Commerce officials and a representative from the Indiana Business Research Center in the School of Business at Indiana University.

Many co-ops across the country have designed economic development rates to attract industry. When a co-op makes the fullest use of available power supplies, it delays the need for building or contracting for additional generating capacity. This helps keep rates stable for all ratepayers while it keeps the electric costs for potential industry competitive. ■

BUSINESS AS USUAL

Electric co-ops across the countryside make significant contributions to their communities in an every day, business-as-usual way. It may be a matter of offering especially designed rates to help consumers manage electric use and save money or running a health fair at the annual meeting. It may be offering Red Cross first-aid classes, organizing a neighborhood watch, making meeting space available for community groups, offering clerical help and other assistance for community betterment projects, participating in career days at high schools or teaching youngsters about electric safety.

All of the co-ops put their organizational skill, their creativity and imagination to work for their consumers. Here are just a couple of samples. ■

Improving Paradise

Al Leece is smiling now. Everything's almost perfect in his retirement paradise in western Montana. Thanks to Ravalli County Electric Co-op and the National Rural Telecommunications Cooperative's (NRTC) new program package for satellite dish owners, television has come to Bitterroot Valley. There's not just the two channels Leece has learned to live with over the last eight years, but a choice just like his city friends have, of news, sports, four super stations, all three networks, public broadcasting stations and movies.

"I had more or less given up on television when I read a story in *Rural Montana* (the monthly magazine published by the state's rural electric co-ops) that outlined a new plan to develop a package of programs for people like me who depend on a backyard dish to get TV," recalls Leece.

"I called and said, 'I'm coming in.'"

All Leece needed to do was give the co-op the number of his decoder and he received the NRTC program package that day. Today Leece is one of 8,000 subscribers to the NRTC package offered by 448 member-owned systems, mostly rural electric cooperatives. Millions of rural Americans live in areas too remote to ever have the benefits of good television reception and cable TV any other way.

Says Leece, "There's a feeling of isolation when you're cut off from news from the outside world. The co-op offers a service that no one else could."

The co-ops across the country are happy to offer this service and apparently so are the consumers as some 100 new subscribers are coming on line every day. ■

"The co-op offers a service that no one else could."

Al Leece
of Bitterroot Valley

Helping Consumers Help Themselves

Eugenia Jetton's work with financially troubled consumers of Gibson County EMC costs the west Tennessee co-op about $10,000.00 each year, but it realizes more than twice that amount from consumers whose debts might be written off without Jetton's intervention.

In fact, there's no price tag to match the kind of help she provides to consumers. She's a different kind of bill collector whose personal home visits to delinquent consumers in the nine-county area help get troubled people back on their feet.

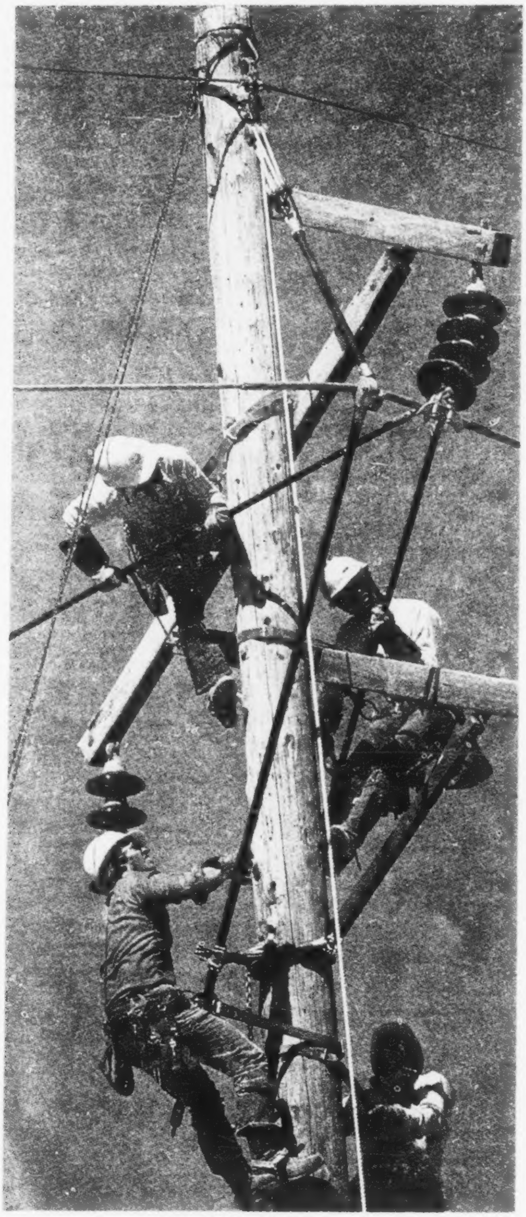
Jetton uncovers all kinds of problems by being a willing listener. She may learn of financial problems, broken marriages or health problems through her visits. Since she began this work in 1980, she's helped more than 1,500 consumers help themselves. Her referrals to social agencies, job placement and education programs have resulted in people getting the assistance they need.

In the course of her job, she's helped consumers get faulty appliances fixed, put plastic over their windows to keep the winter out and the bills down, and advised local emergency services of precise locations and needs of consumers on health support systems.

As chairman of the Gibson County Interagency Council, she compiled a directory of community service agencies that has helped eliminate duplication of services. Her work in community activities ultimately helps the people she serves through the co-op.

The attitude at Gibson is one of service to everyone. Some organizations look at slow payers as trouble. The co-op looks at them and says, "Is there some way to help them?" To do that it takes someone who really has a sincere concern for people, like Eugenia Jetton. ■

Eugenia Jetton, member services counselor, Gibson County EMC



The Art of the Possible

Demand is a word that we take seriously in the electric utility industry. It is the basis for the business. Yet for an organization owned and controlled by the people we serve, demand takes on a broader meaning. The people have come to know that the electric cooperative can do far more than provide electric power.

As an organization, we have a history of dealing with the "art of the possible." Was it possible in 1935 to bring electric light and power to rural Americans, 90 percent of whom were going without? Many, many thought "no—it can't be done." But through a partnership with government, and with the cooperation and participation of the people, the lights went on across the countryside, one household at a time. In that task alone, together we built more than a network of poles and power lines. We built a network of people whose leaders serve only as long and as well as they meet the demands of the people.

The demand for electricity has become essential, and another demand is emerging, developing with the same unanimity. A single voice from a chorus of millions cries for help to revitalize rural America.

Once again there are rumblings of "it can't be done." Once again, we know better. The pattern for progress is there and we are helping to rebuild what we can with the resources we have and the help of others—sometimes, just one job at a time. Just like providing electricity, revitalizing rural America is a tall order for an essential service to rural Americans.

We hear the demand.

We know it is possible.

We have the power.

Senator BAUCUS. Bob, that is terrific. That is the best no-nonsense statement I have heard on the approaches we have to begin to take.

Mr. Page, you are next.

STATEMENT OF CHRIS PAGE, EXECUTIVE DIRECTOR, NORTHERN VERMONT ECONOMIC DEVELOPMENT COUNCIL, ST. ALBANS, VT

Mr. PAGE. Mr. Chairman, I am pleased to be here today representing the National Association of Development Organizations. My statement has been submitted for the record and I, too, would like to offer you a summary of that statement.

NADO was founded in 1967 by a group of economic development districts to encourage the creation and retention of jobs in rural and small metropolitan areas, and since that time it has been one of their strongest voices in Washington.

As recently as last month, our directors visited all 535 Congressional offices to tell our story of public and private investment in rural America. And in the event that somehow our story did not reach you, I have brought with me today a sample of what we delivered to each of those offices: A set of chopsticks that are made in the Iron Range in Minnesota and exported to a number of places, including Japan; and NADO's own button which bears our current motto, "Invest in rural America."

I would like to thank you for your leadership in examining the prospects for economic development in rural America and the ways in which we may improve these prospects.

Since the members of NADO are multi-county planning and development organizations, we represent the hands-on practice of economic development around the Nation. Our emphasis is on assisting local governments and the private sector to work cooperatively on business, community, and economic development and diversification programs.

Our States of Montana and Vermont share a similar heritage of natural beauty and rural character that attracts a committed and diverse population, although I cannot claim to rival Ms. Woods' definition of "rural." Our citizens are bound together by their desire for a rural way of life, and we know that this choice, like all others, involves a cost.

Rural areas such as Montana and Georgia and Vermont and Minnesota have seen their primary industries decline. Diminishing agriculture, forestry, and mining have taken with them financial and human resources.

As a native Vermonter who chose to remain, I have watched many of my friends make difficult decisions to trade their rural homes for the more economically secure life of urban areas. And the chart you showed before illustrates that trend.

The decline of these traditional rural industries brings with it an upheaval in local and regional economies. Our ability to transform this upheaval into opportunity will in large part determine the future of rural America in the nineties and in the next century.

Your support, Mr. Chairman, for air service to smaller airports is appreciated by NADO's members. In Vermont we have a system of regional airports, which are an important factor in the attraction of new industries, expansion of local businesses, and an increase in tourism.

In northeastern Vermont, part of the six-county region that my economic development district serves, the market size has been unable to support scheduled service from these airports for many years, and we no longer are served by Amtrak.

More recently, Boston's Logan Airport had quadrupled its landing fees for small aircraft, thereby removing any hope for service in the near future and certainly increasing the area's isolation.

The experts tell us that we are entering the age of the service industry and of communications. I greatly fear that the shades will be drawn in rural America when that age dawns, unless we can improve its access to telecommunications and other forms of technology.

Only one community in Vermont has even basic touchtone telephone capacity. Businesses in other communities that require computer, fax machine, or discount long distance services must rely on additional equipment for adaptation. But adaptation is something that rural folks understand pretty well.

Consider for example the small computer software firm that our district is assisting in Richford, VT, on our border with Canada. The company was founded by an emigrant from Silicon Valley who chose to return to his family home. Now employing 16, the firm expects to employ 30 by the end of the year.

The company constantly faces problems from the region's antiquated phone equipment, which is not scheduled for upgrading until 1991.

Vermont has a social contract entered into by our legislature with our regional phone company. It is designed to provide deregulation for commercial telephone services in exchange for assuring that there will be personal phone service available for those who cannot afford it. This is a step in the right direction.

However, those phone services have not stretched beyond our major metropolitan area, and it is probably going to take more, maybe something like tax incentives, to fulfill this need.

Clearly, our company's decision to stay in northern Vermont has been made primarily on a personal basis, and that may work in the short term. But how long can we really expect rural businesses to function, much less be competitive for years, under circumstances that any urban area would not tolerate for more than an hour or two?

And what about the rural labor force? If we are to seize the opportunities offered by this transition, we must be prepared to train our workforce in new and emerging disciplines.

Vermont currently is experimenting with an interactive satellite project which links our technical college with adult vocational students in a nightschool program. Its potential for both traditional and adult students is substantial.

But the next generation has already arrived. There exists a fiber optics system that allows for training of multiple students in computer-assisted design on an interactive basis. This technology is incredibly promising, particularly in mountainous regions where satellite transmission can be difficult.

But the advent of the necessary fiber optic cable, in northern Vermont certainly and in most rural areas, is still many years away.

Let us assume for a moment that rural businesses did have access to adequate technological and transportation services to build a stable regional economy. What factor then is missing?

My economic development district colleagues and I can tell you from experience that one of these is capital. Rural capital markets revolve around small, conservative, private financial institutions, investor-owned organizations constrained by lending limit regulations and profitability requirements.

Only yesterday, L. William Siedman, chairman of the Federal Deposit Insurance Corp., told a meeting here in Washington that we cannot expect banks to solve the economic problems of this Nation's distressed areas. Risk and venture capital are virtually nonexistent in these areas.

One Vermont bank recently formed a risk capital corporation, but it seems unlikely that most of the businesses in my area will qualify for the limited number of these modified commercial loans on which the institution is willing to take a slightly higher than normal risk.

How do we then meet the needs of rural businesses while achieving job creation, income improvement, and other social goals?

Rural revolving loan funds are a proven method of achieving these objectives. Our district operates an RLF originally capitalized by the Economic Development Administration with a $1 million grant. Today, after 8 years, despite some losses on some very high risk loans, the RLF's value is $1.4 million.

It has assisted in the creation of over 400 jobs in small businesses and has opened the door to over $17 million in other capital by assuming junior or risk positions in these loan packages.

This ability to leverage financing is critical to economic development activities in rural areas, as you know, Mr. Chairman, from your experience with the Big Bud tractor project in Montana.

In using financial tools such as RLF's, rural investment companies, and block grants, we must be prepared to take risks to seek those varied solutions. Professional staffs and local control are the key elements in a successful economic development program.

Such staffs enable local communities to select investments with a promise of permanency and growth. These staffs provide necessary services, the type of services that Ms. Wood identified in her testimony as lacking in her region.

What then is the role of the Federal Government in this process? We believe that the Federal Government has a responsibility to foster community and economic diversification in both rural and urban areas. The 74 percent cut in Federal investments in rural programs since 1980 has done grave damage to small communities.

This is particularly true of those Federal programs which traditionally have played proactive roles, such as the Economic Development Administration, which provides not only infrastructure assistance, but professional assistance to communities through its planning district program.

The Farmers Home Administration's rural development programs, which Under Secretary Vautour noted produce tangible, quantifiable results through direct investment; the Appalachian Regional Commission; HUD's small cities community development block grants, are all important parts of this investment program.

It is these programs of investment and technical assistance, with their base in local governments and regional, sub-state organizations, that have helped rural communities chip away at economic development problems. They represent future-oriented action, rather than academic study, control of regional destiny rather than compilation of data.

And I think we must here make a distinction between development education and training and the type of hands-on direct assistance to local companies that sub-state economic development organizations with professional staffs can provide.

There is little benefit in training would-be entrepreneurs and local officials, only to face a market so devoid of basic services and infrastructure that it ensures their failure.

Infrastructure programs, perhaps including new technology acquisition, rural investment companies, transportation planning and implementation programs, state-of-the-art training facilities, these are legitimate and necessary productive investments of public capital to create real jobs, improve income levels, and stabilize rural economies.

The members of NADO believe that we are in a time of transition and opportunity for rural areas, Mr. Chairman. It is not unlike a passage from Ivan Doig's recent novel about early settlers in your home State of Montana: Surveying the territory's high mountain meadows, the immigrant protagonist says:

"Persons we have been all our lives, and persons becoming new to ourselves. How are past and present able to live in the same instant and together pass into the future?"

We too are surveying new economic territories, trying to mesh our knowledge of the past with our hopes for the future. With your assistance, Senator Baucus, and the Members of this Committee and the Members of this body, we hope to find the financial and institutional means to bring a healthy and vibrant rural America into the next century.

Thank you very much for your consideration.

[The prepared statement of Mr. Page follows:]

NADO

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
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Testimony of:

CHRIS PAGE

Executive Director of the

Northern Vermont Economic Development Council
St. Albans, Vermont

On Behalf of The

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Before the

Committee on Small Business
Subcommittee on Rural Economy and Family Farming
The United States Senate

July 13, 1988

Washington, D.C.

Mr. Chairman, members of the Small Business Subcommittee on the Rural Economy and Family Farming, I am pleased to be here today representing the National Association of Development Organizations (NADO). My name is Chris Page and I am the Executive Director of the Economic Development Council of Northern Vermont and a member of the NADO Board of Directors. NADO was founded in 1967 by a group of economic development districts to encourage the creation and retention of jobs in rural and small metropolitan areas.

I would like to thank you, Sen. Baucus, for your leadership in examining the prospects for economic development in rural America and the ways these prospects can be improved. Since the members of NADO are multi-county planning and development organizations, we represent the "hands-on" practice of economic development around the nation. Our emphasis is on assisting local governments and the private sector to work cooperatively on business, community and economic development and diversification programs.

As I was preparing for this hearing, I considered some of the similarities of your state, Montana, and my home Vermont. The differences such as size, region of the country, and population density at first seem great. But both states are overwhelmingly rural; both are known for their natural beauty. The splendid natural environment attracts both visitors and permanent residents to our states, allowing people to adopt a desirable lifestyle. In both states, as well as in other rural parts of the country, many citizens are well educated and highly skilled. They have chosen to live in Vermont or Montana because their way of life is of paramount importance.

However, the choice to live in rural America is not without its problems and drawbacks. These problems have been well documented in your own remarks as well as by previous witnesses. Therefore I shall again draw upon similarities between our states. Both Vermont and Montana have been dependent upon primary industries such as agriculture, mining and forestry. Of necessity we are in the midst of a transition, a major upheaval which can potentially benefit our rural areas enormously.

Second, both our states have transportation barriers, especially in air transportation. I would like to take this opportunity to thank you, Mr. Chairman, for your consistent defense of airline services for smaller airports. I have to agree with sentiments expressed by other witnesses that de-regulation took us all for a ride. In Vermont we have regional airports which are important to attracting business. In one county the airport is used by a company for bringing in necessary parts; in another county the regional airport led to the establishment of a new branch of a large company. But because of insufficient numbers of passengers commuter services to the regional airports in northern Vermont have been discontinued. This definitely has had a negative impact on both existing and prospective new businesses. Furthermore, last week Boston, the major "hub" airport for Burlington, Vermont, and West Lebanon, New Hampshire (which serves much of central and northeastern Vermont), announced that the landing fee for smaller aircraft would be quadrupled. Once again this will lead to fewer flights, less service, greater isolation.

Third, we like other rural folks need improved telecommunications infrastructure. For example, the only place in Vermont which has "touchtone" telephone capacity is Burlington, our one major metropolitan area with 100,000 residents. Elsewhere the use of a modem or fax machine with a computer as well as access to special services and discount long distance rates requires equipment for adaptation. I hardly need tell you that this is expensive and a disincentive for technologically advanced small business development or expansion.

PROSPECTS FOR ECONOMIC DIVERSIFICATION

While admittedly there are barriers to rural economic development, I believe that overall the prospects are good to excellent for a number of reasons. First, in many rural and small town areas there is a talented, educated and skilled work force. And there are urban dwellers willing to trade high salaries and certain urban amenities for the many advantages of rural living. Second, in a rapidly changing global market rural areas could probably adapt as quickly as or more quickly than urban areas.

In Vermont and elsewhere, our rural areas have what I would call a cultural infrastructure in place. Our small towns have well established libraries, museums, historical societies, and other cultural and educational institutions which residents enjoy. Rural people are known for their active participation in churches, associations, clubs and other activities which nurture the community and the individual. While difficult to measure -- especially in economic terms -- this tradition of community participation is an important and favorable attribute of rural areas.

With rapidly expanding and changing technology there is no reason why rural America cannot participate on even footing. Technology, given the needed infrastructure, can work anywhere. Richford, Vermont, a little town bordering Canada, is home to a business which makes computer software programs. The business was created by a person who became tired of life in Silicon Valley and returned to his family home. Presently this company employs 16 people and by the end of this year will employ 30. The original business was financed by private capital; present expansion was assisted by a $60,000 loan from the community of money provided by the Community Development Block Grant program, and an $85,000 loan from a rural revolving loan fund. The total expansion is a project costing $850,000 which means that private capital has provided over 80 percent of the financing.

Even this successful and expanding software business is not without problems related to its rural location. Richford's antiquated telephone exchange equipment is scheduled for up-grading sometime after 1991. In the meantime, the company is plagued by noisy lines and frequent service interruptions. These conditions, combined with ongoing difficulty in leasing a sufficient number of lines, have made expansion of this dynamic telecommunications business exceedingly difficult; indeed, it is my belief that without the founder's personal ties to the area, this company would be relocated in an urban region with more efficient services. Therefore, I would underline the necessity for appropriate infrastructure if rural businesses are to be competitive.

Sometimes economic diversification succeeds because it uses products and human resources already present in the area. In Vermont we have a well established dairy industry including cheese making. Many of our residents have skills and experience related to the manufacturing of dairy products. We also produce a fair amount of whey, a milk by-product which remains after making cheese. Whey is a real nuisance because it does not easily decompose and can cause serious ground and water pollution.

In Franklin County, Vermont, the state constructed a plant to dispose of whey in a safe and sanitary manner. Whey is trucked in from all over northern Vermont to this facility. The Economic Development Council of Northern Vermont assisted in the establishment of a Dairy Industrial Park and helped entice a large national firm to locate a new facility there. At this high tech plant the whey is utilized in the manufacture of infant formula, most of which is exported. A research and development section has been added to the original plant, and production has increased beyond original expectations. The company now plans to add an electrical co-generation plant facility to utilize its process steam, thereby adding power to New England's heavily pressured grid.

The original labor force for the infant formula plant was drawn from a labor pool of Vermonters knowledgable about dairy processing. Today approximately 250 people are employed at the facility. The company is actively involved in on-the-job training for a variety of skilled, well-paid positions. Some specialized personnel must be attracted from outside the immediate area because the industry has used up the available workers!

This is a community which took advantage of their skilled human resources and an available dairy by-product. The result has been job creation, an increased local tax base and a solution for a major environmental problem: ecologically safe disposal of whey. In the development of the Dairy Industrial Park the community purchased the land then utilized infrastructure grants from the Economic Development Administration (EDA) and the Farmers Home Administration (FmHA). Locally imposed strict environmental requirements have not hampered marketing of the park and have retained the character of the natural surroundings.

WHAT TOOLS ARE NEEDED FOR RURAL DEVELOPMENT?

It should be emphasized that to be effective rural development must be locally based. Economic diversification is a "bottom-up" process starting with a group, such as our E.D.D., whose members know the community and bring to the local decision-making process their experience of the world beyond local borders. Development involves hard choices; to make these choices our board of local government officials and business and community people look at the larger picture, carefully targeting the available public and private resources. In setting goals and making decisions we must be responsive to many factors in the social and economic environment, in Northern Vermont and in a global framework.

One general rule for all useful "tools" of economic development is that they must be useful in many different situations. Federal programs need to be flexible so that locally we can be responsive to a very dynamic and changing situation. Having made such a broad statement, let me hasten to add that there are specific tools or programs in finance, training and education which are particularly useful in my experience.

As you have already highlighted, Mr. Chairman, rural America needs investment capital. Revolving loan funds, rural investment companies or other formulations for providing venture capital are essential to the creation and expansion of businesses and the employment they provide. In the private sector the Merchants Bank of Burlington (with branches throughout our state) has recently established a capital fund for high risk lending to encourage business development. This makes available capital and certainly will assist Vermont businesses. But private lending of this nature is constrained by lending limit regulations and the need for profitability; it is not tied to job creation, income improvement, or other social goals. Small borrowers or new businesses with the associated higher risks would likely not qualify for commercial, private sector loans, particularly in today's secondary market.

Revolving loan funds are an important tool to assist in economic growth and diversification. In our multi-county area of northern Vermont we have had a revolving loan fund for eight years. Capitalized at $1 million by the Economic Development Administration, the loan fund has grown to $1.4 million through interest payments, despite some losses. The productive loans are easy to report but it is, I believe, the losses that tell a story of economic reality in rural areas. Consider for example an investment in an aging primary industry -- lumbering. The combined forces of a changing world market, inadequate technology and fierce competition spelled failure for this major employer. Garment manufacturing, done more cheaply in southeast Asia and the Caribbean, abruptly reminded us of the historic instability of this industry. And a limited customer base, familiar to many rural small businesses, spelled failure for a machine tool company dependent upon military subcontracts. These financial losses are the cost of doing business in the rural risk capital market. They are the result of an informed, conscientious group of local citizens weighing the risk of failure against the certain loss of precious jobs.

In using financial tools to assist rural economic development we need to be willing to take risks but also to be aware of future markets and technologies. Clothing stitching can be done nearly anywhere on the face of the globe but the manufacturing of infant formula requires special products and skills and is unlikely to move anywhere in a hurry. We also must be very careful to seek multiple and varied solutions -- in the kinds of tools used, in the businesses created and in the technologies selected. Only with a professional staff can the "due diligence" process be conducted so as to select wise investments and service those investments properly.

Education is an essential building block for successful economic development and many of our rural states have excellent educational systems. I am concerned about the high school drop out rate and the gloomy employment future for these young people. I do not have any ready solutions but can illustrate the problem. One business which we have assisted is a commercial laundry located in St. Albans, Vermont. This business employs 20 unskilled workers at wages of $4 to $8 per hour. The work is routine but it does offer regular jobs to unskilled, less educated workers. The manager has difficulty, however, finding suitable drivers to deliver the laundry, in part because of the applicants' lack of basic education.

At a more sophisticated level, our public schools in Vermont and elsewhere take pride in the vocational education programs. However, too often these programs lag behind current technology and are unable to keep pace with the demands of present and future employers. Thus graduating high school students with good basic education may not have the technical skills for the jobs which are or will be available. While it is undoubtedly an exaggeration, I have nightmares of students trained to use only typewriters in an era of computers and word processors. Perhaps vocational education needs to be reassessed and evaluated by imaginative, futuristic planners and business people and its ties to development practitioners strengthened. The American Association of Community and Junior Colleges has targeted this effort as a primary focus for its members.

One recent educational innovation which I would like to report is the use of an interactive satellite link between Vermont Technical College and local vocational programs for adult education. By using the satellite evening classes in more specialized or technical subjects can be offered locally. Because it is an interactive system, students can ask questions and be involved in sophisticated educational processes without the full burden of facilities and academic overhead.

Training programs are another important tool for economic development and diversification, but I believe we need to scrutinize the purposes of these programs carefully. Let me describe two recent experiences. Our E.D.D. was asked to develop and staff a twelve week course for potential entreprenuers. This was a full-time, college`level course which covered subjects such as marketing, bookkeeping, business planning, personnel matters and so forth. The first program was done in cooperation with the Job Training Partnership Act for JTPA-eligible individuals with an average of eight or nine years education. After the training course five out of 40 people became self-employed.

The same training course was repeated using EDA (Economic Development Administration) funds which allowed training of any dislocated worker. Of the 12 people in the class, all became employed or self-employed within six months. Those who started their own businesses in turn created additional jobs for others. The average educational level of these trainees was 14 years of schooling. I do not advocate neglecting our less educated citizens in training and employment programs. But I do believe that as a matter of public policy we need to match our training funds carefully to appropriate populations and increase the return on this investment in the creation of businesses and additional jobs.

ROLE OF THE FEDERAL GOVERNMENT IN ECONOMIC DEVELOPMENT

We believe that the federal government does have a responsibility to foster community development and economic diversification in both rural and urban areas. The fact that federal funding for rural development has been cut

74 percent since 1980 has resulted in grave damage to small town and rural America. Not all communities are equally endowed with economic resources, and the effects of broad macro-economic policies do not fall evenly across the land.

As I have already mentioned, there are some excellent federal programs which assist rural economic development in a meaningful fashion. Such programs are the Economic Development Administration (EDA), the Farmers Home Administration (FmHA) non-farm rural development programs (especially for water and waste-water treatment), and the Community Development Block Grants (CDBG) for small cities. The Appalachian Regional Commission (ARC) has been of enormous importance to many of my colleagues working in economic development in those 13 states.

One of the major contributions of these federal programs has been infrastructure construction. In the future, however, let us consider broadening our view of infrastructure to include telecommunications and the acquisition of other forms of technological facilities. Poor communities will from time to time require public assistance in analyzing and acquiring the modern technology and equipment to service new businesses. From the public policy perspective, we must be creative and future oriented in financing this movement into technology and discuss its inclusion in federally financed programs.

While the construction of inter-state highways has, in some cases, been a plus for rural communities, rural highways have received less federal funding in this decade. As you know, rural workers usually travel farther to their jobs, normally without the benefit of public transportation. Small local governments lack the resources to plan or construct the necessary roads. While metropolitan areas receive federal funds for transportation planning, rural communities do not receive highway planning monies.

Federal programs in their regulation and implementation need to be broad and flexible to allow states and local groups to address their particular needs. Since our work involves "chipping away" at a myriad of economic development problems at the local level, it is difficult to recommend specific federal mandates or subsidies which might assist in all areas. Rather, we must continue to work together to identify economic opportunities for rural areas and to ensure that these are not lost due to inadequacies in our system of domestic assistance. I do believe that local economic development practitioners can assist the Congress in finding ways to promote more integration of the goals of various federal programs -- for example, education and economic development. This is not to suggest that programs should be combined but rather developed and administered with a more integrated vision of the future rural America.

The fact that authorities for various programs affecting rural economic development lie in different departments and agencies does not constitute a problem for our work. In the end, all economic development (like politics) is local. With different federal programs available, local areas can select the appropriate programs for their needs. Integration of programs can be achieved at the local level provided that the federal rules and regulations are flexible. Local development districts work comfortably with various federal departments for varying needs -- Small Business, Health and

Human Services, Adminstration on Aging and so forth. Therefore, we do not recommend that all rural programs be lumped together any more than all urban programs need be under one administration.

In closing I would like to thank you, Mr. Chairman, for inviting NADO to be represented at this hearing and for your dedication to the issues affecting economic development in rural America. Our organization looks forward to working with you, the members of the subcommittee and the staff in strengthening or developing and implementing programs for rural economic development.

Senator BAUCUS. Thank you, Mr. Page.

I have a note here there is a matter coming up on the floor that I might have to attend to shortly. Is it possible for the next two witnesses to give their statements in abbreviated form so that I will not have to recess the Committee and come back later?

STATEMENT OF DON A. DILLMAN, DIRECTOR, SOCIAL AND ECONOMIC SCIENCES RESEARCH CENTER, WASHINGTON STATE UNIVERSITY, PULLMAN, WA

Mr. DILLMAN. Let me abbreviate in this way. I wish to address the importance of a modern telecommunications infrastructure for support of rural business development. There are a number of reasons for that happening. We are very much moving toward an information era in which there is tremendous substitution——

Senator BAUCUS. Would you bring the microphone up closer to you.

Mr. DILLMAN [continuing]. In which there is tremendous substitution of information for energy and labor in the production of goods and services. The recommendations made in my prepared statement come down to this transition to the kind of society toward which we are moving.

The archetype or typical business of the mass society, that we have gone through, was a business that periodically received large orders, produced a standard product using assembly line methods, and then shipped products in large quantities to one or a few destinations.

The typical business that we are moving toward is one that receives small orders regularly, utilizes software to quickly retool equipment, sometimes operated from another city, to produce small production runs, which are in turn shipped in large quantities overnight to multiple destinations. I think Ms. Woods' business is coming very close to that type.

I have four recommendations that I think are important to be considered. One of them is to assure that rural America has a telecommunications infrastructure to allow its residents and businesses to participate in the information age.

The telephone has changed so much. In the community control era, in the first third of this century, the thing it did was to let local people communicate with one another within the community and they became efficient agricultural producers because of it.

In the mass society that we went through, the telephone, and in particular its long distance capability, allowed the large corporations to be built, based upon good vertical communications between head offices and branch offices. Now we are moving into the information era in which it is the machine-to-machine communication that rural communities have to be ready to deal with.

The second recommendation is that we need to develop demonstration projects on how to utilize information technologies to create jobs in rural America. But, we are dealing with a two-edged sword, which basically is this. As we bring information technologies into rural areas, there is just as much potential to pull the remaining businesses out of rural America as there is to bring them in.

I have examples of this problem cited in my written testimony from my own research, of small businesses starting to serve very broad areas which included other rural communities. They bring business in. At the same time a newspaper has its typesetting done in another community. It sends stories out by telephone and brings the typeset product back into the community. Jobs are lost because of it.

The thing that rural America needs to deal with is the challenge of finding out how to take the information technologies and utilize them to serve other areas.

The third recommendation is that need to develop or to encourage residents of rural communities to learn information technology skills important to the operation of the rural businesses. Overcoming some of the cultural inertia that exists in some rural places is going to be a major challenge.

One of the things I want to say, with respect to demonstration projects that are needed, is that we need to identify firms willing to experiment with creating jobs in rural locales and find what it takes to make such efforts successful.

There is nothing inherent in answering 800 numbers, processing medical records and insurance claims, or utilizing computer-assisted manufacturing techniques that require their being done only in urban America.

I just came back from another country, where I gave a presentation on information technologies in agriculture. When I finished, the president of that country's telecommunications system got up and said:

> You know, it is very interesting, because right now we have started batching banking records from the United States over to one of our cities in the western part of our country. Then this batch of information is sent out to local communities here, where we have put in new telecommunications systems that allow the records to be processed. Then we batch the results of our work back to the United States.

If we can send data overseas to be processed there, then why can't we do it here, that is, begin to develop demonstration projects to do it in rural areas of the United States?

I thank you.

Senator BAUCUS. Thank you very much.

[The prepared statement of Mr. Dillman follows:]

TESTIMONY BEFORE
SUBCOMMITTEE ON RURAL ECONOMY AND FAMILY FARMING

COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

Subcommittee Chairman: Senator Max Baucus

By

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July 13, 1988

Thank you very much for the opportunity to testify before your subcommittee. In these brief remarks, I wish to address the importance of a modern communications infrastructure to support rural business development and the barriers to achieving it.

In this century, rural communities have experienced three eras of social and economic organization. In the Community Control Era which dominated the first third of this century, rural communities were dependent upon natural resources. People who lived there relied mostly on farming and other natural resource-based industries for making a living. In addition, their life activities were centered on these communities because the technology of those days gave them little choice. Production was aimed towards local and regional markets and services were produced mostly for local residents and local businesses.

During the middle third of this century, rural communities existed in the context of the Mass Society. This was the period of building large corporations which provided the same standardized goods and services to both urban and rural America. Locally owned businesses gave way to branch outlets and national businesses and most rural businesses produced goods for national markets. Rural people began traveling farther in order to obtain services and no longer were limited to what their local community could provide, but rather sought services in a regional context.

Now, during the last portion of this century, we're moving rapidly towards an Information Era. The combining of advances in communications and computer technologies is changing the kinds of businesses that can exist in rural areas and the ways in which productive work is accomplished. In a sentence, information is being substituted with great effectiveness for energy and labor in the production of all manner of goods and services. Analysis of the type of work that Americans do shows far fewer people employed directly in natural resource utilization, including farming, as well as fewer in manufacturing. In contrast, dramatic increases are occurring in the proportion of the labor force involved in service, information, and knowledge work. Some estimates indicate that well over 60 percent of the labor force will be employed in the service, information, and knowledge sector by the end of the century.

The Information Era holds dramatic implications for the kinds of work people do and the organizations in which they work. Increasingly, job creation is occurring in smaller organizations which are producing goods and services that are being consumed not only nationally but in many other countries throughout the world. The success of these businesses increasingly depends upon the application of information technologies, ranging from microcomputers to facsimile machines, and the skills of employees for putting these information technologies to effective use. If rural Americans are to find jobs, and if businesses located in rural communities are to be competitive, they too must learn to use microcomputers to manage resources, innovative software to direct production, and modems and facsimile machines to communicate with customers and businesses in distant locations.

In the Community Control Era, a typical rural business was oriented mostly towards the community and region in which it was located. The archetype business of the Mass Society was a company that periodically received large orders, produced a standard product using assembly line methods, and shipped products in large quantities to one or a few destinations. In contrast, the archetype information era business is one that receives small orders regularly and utilizes software to quickly retool equipment in order to produce small production runs which are in turn shipped in small quantities, often overnight, to multiple destinations. In fact, the products being shipped are increasingly likely to be services rather than a manufactured product.

If rural America is to be a viable location for the establishment and growth of businesses that can compete in our information-based global economy, a number of issues, each of which may inhibit their growth and development, must be considered. The following recommendations are aimed towards this end.

1. We must assure that rural America has a telecommunications infrastructure to allow its residents and businesses to participate in the Information Age. This means providing digital switching for rural telephone systems, high quality telephone lines (e.g., fiber optics) that allow facsimile and computer transmissions, adequate trunk line capacity for connecting to national communication networks, and access to value added networks (VANS). A complete information age infrastructure also implies easy access to overnight delivery, cable television services, and private telephone lines (presently defined by some rural residents as impossible to obtain except at very high cost). In the Community Control Era, the telephones were important to rural people in large part because they enabled communities to become more efficient internally as the party-line substituted for physical travel. In the Mass Society, long-distance voice communication was exceedingly important as it facilitated the building of

large, national corporations. In the Information Era, machine-to-machine communication is assuming the importance that long-distance and party-lines served in earlier times.

2. We need to develop demonstration projects on how to utilize information technologies to create jobs in rural America. As rural communities achieve access to modern information technologies, two possibilities exist. One is that those connections will be used to provide services to rural people from distant urban areas, thus further weakening already existing rural businesses. The other possibility is that rural businesses will learn to serve people in distant locations, thus bringing business to them. In many respects, rural America seems caught between a rock and a hard spot. On the one hand, rural people have no choice but to learn information technologies in order to avoid being left further behind. On the other hand, there is the danger that outside businesses, which will likely get access to new technologies and learn information skills sooner, will use modern telecommunications to provide services to local people, thus further weakening local business structures. We need to begin a broad effort to investigate ways of helping rural people to use information technologies competitively.

In a limited study of three small rural communities in Washington state, we observed some jobs being created because of the availability of good telecommunications technology (e.g., positions in an insurance agency that served specialized businesses in several states). We also observed instances of work formerly done in a community being shipped out (e.g., a newspaper that sent news stories out for typesetting by telephone and then had them returned by telephone for printing; the typesetting jobs were therefore lost to the community).

Demonstration projects are needed to help rural communities to learn how to utilize information technologies to create jobs in rural America. We need to identify firms willing to experiment with creating jobs in rural locales, and find what it takes to make such efforts successful. There is nothing inherent in answering 800 numbers, processing medical records and insurance claims, or utilizing computer-assisted manufacturing techniques that require their being done only in metropolitan areas.

3. Ways need to be developed to encourage rural people to learn information technology skills important to the operation of rural businesses. Ultimately, I expect that bringing information technologies to rural communities and businesses will be less difficult than the task of convincing rural people of the importance that information technologies hold for their future and that of their communities. Traditionally rural people and places are slower to adopt new technologies than are urban people. Survey data from Washington state suggests that this lag continues in the case of information technologies (attachment: Dillman and Beck). Steps could be taken to encourage their adoption. For many people, learning to utilize information technologies will involve dramatic and perhaps traumatic change. This process can be speeded up by placing computers and other information technologies in rural schools and training teachers to integrate them into the school curriculum. Another potential

concept is one that has been utilized in four European countries: Sweden, Norway, Finland, and Denmark. There, telecottages have been developed on experimental bases in many rural communities. Community buildings have been equipped with microcomputers and other advanced information technologies. They're available for telecommuting to work, for teaching skills to local residents, and providing all manner of advanced information services that can be helpful to local residents (attachment: Qvortrup). This concept could be explored on an experimental basis in the United States.

4. We need to learn to what extent people's residential preferences are a barrier to business development in rural locations, and act on that information. Modern information technologies have been touted as having the potential to overcome the friction of rural space to a degree unprecedented since the advent of the telephone. It has been argued that it is now possible to live in rural America and be a full participant in the affairs of government and society to an extent once limited to residents of Washington, D.C. and New York. One of the keys to whether this happens is residential preferences. If businesses are to be located and prosper in rural America, this phenomenon will, in part, occur because those who operate them want to live there. We need to understand current preferences and whether there is anything about them that can be leveraged to encourage the location and growth of businesses in rural locales. At a time when there is a trend towards smaller businesses and entrepreneurs can pursue many options for locations, it's essential to understand

factors influencing the capability of rural communities to provide a satisfying quality of life for employees of information technology-dependent businesses.

Finally, I recognize that the issues I have addressed here are only some of the many important issues likely to influence rural business development. I have stressed information technologies in part because their effects are less directly visible than any other elements essential to rural business development. I am especially concerned that at this time when rapid changes are being made in the telecommunications infrastructure of the nation, that we may overlook the telecommunication needs of rural businesses, with the result that future rural business development is unintentionally thwarted. Thank you again for the opportunity to provide this testimony.

Senator BAUCUS. Ms. Henrie.

STATEMENT OF BARBARA H. HENRIE, SENIOR PROGRAM OFFICER, NORTHWEST AREA FOUNDATION, ST. PAUL, MN

Ms. HENRIE. Being the cleanup hitter has its good points and its bad points. The good point is that my friends with whom I work in rural development have already said a lot of the things I would have said. The bad point is that I hope I have time to get through the few messages that I have.

I work for a foundation which covers eight States from Iowa and Minnesota west through Oregon and Washington. And before I went to work there 2 years ago, I worked in this Washington.

And I was quite aware that the vision of people here, especially the policymakers, ended at the Potomac, and it was very hard for many of them to remember their roots. I am acutely aware, now that I am out in this region driving around for hours when I do not see people, when I cannot buy something, when I could not call my mother on Mother's Day with any credit card from northwestern Montana, that the rural problems are quite serious and they need to be politicized; that people need to recognize in Washington that rural is not just the southern part of the United States, but also at least a good quarter of the country, and includes many disadvantaged communities suffering from structural economic change.

I was interested in hearing the Department of Agriculture and SBA testimony today because on a daily basis in my work I deal with small business issues and with the problems that rural Americans have which are not addressed by USDA or by SBA or by many of the other Federal programs which exist out there.

And so in my written testimony I have suggested some alternatives. But I do not want to throw the babies out with the bathwater. I think that we do not want to reinvent the wheel, but we do need to have a new Federal policy for rural economic development.

We need to include the States in that policy, but the policy should not be only top-down or only bottom-up; it has to be both; it has to include recognition of human and employment needs, increasing rural poverty, increasing unemployment; and that we need to build a strong coalition nationally to address rural change and rural problems, which are quite different from what they were the last time we went through this exercise.

Thank you.

[The prepared statement of Ms. Henrie follows:]

Testimony: U.S. Senate
Small Business Subcommittee on the Rural Economy and Family Farming
Barbara H. Henrie
July 13, 1988

Rural America, home to one in every four Americans, three out of every four units of government, and charged with the stewardship of nearly 90 percent of the nation's natural resources, is struggling to survive against almost insurmountable odds. Almost two million people left rural areas between 1985 and 1987, reversing a growth trend in the seventies. Since 1979 the number of urban jobs has increased by 13 percent, while growth in rural jobs has been only 4 percent. Rural poverty has increased 35 percent in the last 10 years.

Deregulation of transportation and communications has separated rural from urban America. It now costs more to fly from the Twin Cities to Madison than it does to fly to Los Angeles, a distance four times greater. To fly eastward from Rapid City, on the western edge of South Dakota, after 2:30 in the afternoon, one first has to fly west to Salt Lake City, change planes, and then catch a flight toward the east -- making a one- or two-hour flight into a complicated five-hour trip. In Montana and parts of the Dakotas, lagging telecommunications infrastructure prevents the use of discount rate phone systems. In northwestern Montana, one cannot even dial direct on AT&T. Banking deregulation, combined with rural economic problems, has led to the demise of an essential community structure, the community bank. A study in rural eastern Oregon found that 89 percent of local deposits were being invested in urban western Oregon. Many rural banks have never packaged a large loan and don't know how to assist potential clients who could possibly be eligible for Small Business Administration loan guarantees.

It is generally agreed that rural América needs access to capital, telecommunications, and technology; low cost, adequate transportation; affordable, accessible health care; educational facilities and curricula comparable to urban America; and those types of infrastructure and assistance which enable rural communities and individuals to compete with their urban counterparts. How to respond to these needs is less clear.

This paper emphasizes two rural economic development strategies: support for small business and economic diversification. Research indicates that small businesses or microenterprises which employ 2 to 10 people have the greatest potential to generate rural jobs and to lead to rural revitalization, taking the place of large-scale, resource-based operations. While small businesses hold the greatest hope for rural America, they need a broad range of support. They need debt and equity capital, management assistance, a well-educated workforce, easy transportation to markets, modern telecommunications, and technical expertise ranging from marketing to product development.

Policy and programs that support economic diversification must be developed so that the activities and types of small businesses can grow. There is a limit to the number of gas stations, drug stores, and barber and beauty shops needed in rural America as well as to their potential for growth. Economic diversification implies a shift from traditional economic bases to new ones, from the cutting of timber, for example, to the manufacturing of wood products and for the diversification of local small manufacturing and/or the creation of regional manufacturing networks.

Where does government fit into rural economic development planning and policy, and how have governments responded to perceived needs? Government development strategies have tended to focus on larger businesses, not on targeted programs to assist microenterprise development. Twenty years ago, when the rural crisis was similar to that of today, governments supported industrial recruiting, "smokestack chasing," as a common economic development policy. That strategy did not work in 1968, and it will not work in 1988 when it is again being promoted.

What, then, should constitute rural economic development policy today? Is there a realistic future for rural America? New rural development strategies, e.g., retirement destination communities, tourism, and back office operations of corporations, are being promoted; however, the long-range policy implications of all of these must be considered carefully: Do these types of businesses create year-round jobs with adequate wages and benefits? What is the impact on the use of the states' health and human service infrastructure? How do they affect the tax base? As research substantiates a present and future decrease in manufacturing jobs and an increase in those in the service industry, how should rural economic development policy respond to these structural changes in our economy?

There is hope for rural America, but changing from reliance on natural resources to economic diversification will not be easy. There has to be an integrated development and employment policy built on human and natural resources. For example, areas rich in natural resources need to examine niches for value adding to those resources. A comprehensive community planning and development approach, including the capacity for research and business development and capital to initiate and expand small businesses, has to be brought to this effort. Schools may have to train individuals for new types of jobs. Surveys of existing small manufacturing businesses have led some communities to create broad organizations to work toward the expansion and financial support of those businesses.

In other cases, where there are no local natural resources or existing manufacturing operations, communities are facing hard decisions. It may be that very small towns will disappear, while regional centers based on government, health care, and finance survive and grow. With limited dollars available for development and infrastructure needs, policy may have to direct available dollars to larger population areas.

As these issues are discussed, communities need to be treated as partners, not simply beneficiaries. They need help in planning their economic destinies and looking at local resources and opportunities for diversification. State and federal governments can and should assist communities.

Some existing federal rural economic development programs have helped rural communities. The problem is that federal programs which target rural development are uncoordinated and scattered among many departments. Additionally, most are threatened by cutbacks or have already suffered substantial budget cuts, in spite of increased needs.

Successful programs include HUD's Community Development Block Grants (CDBG), which have been critical to the establishment of rural revolving loan funds and small business development. A recent study found that $6.19 was leveraged for every dollar of CDBG funds invested in new firms. The average CDBG loan for a start-up was $207,043 and created an average of 34 jobs per project. Yet in spite of many success stories, CDBG funds allocated to economic development in 1987 dropped from 13 percent to 10 percent. Allocations should be increased with specific targeting for rural projects.

U.S. Department of Agriculture rural development programs are now mainly focused on the Extension Service national structure and the few regional Resource Conservation and Development districts that date from the sixties. The agricultural focus of the Extension Service should be changed to respond to the new demands in rural America, i.e., small business assistance and community economic development planning. The Farmer's Home Administration has funded a number of regional loan funds, but they target small- to large-size businesses and exclude true microenterprises.

The Economic Development Administration (EDA), a key player in rural development efforts throughout the country, has filled rural funding gaps for projects ranging from business development on Indian reservations to planning and technical assistance grants for rural, regional economic development groups. But the EDA's budget has been cut so drastically that its very existence is threatened.

The Small Business Administration (SBA) supports a network of Small Business Development Centers around the country, the number and quality of which vary from state to state. Generally, the Centers are so overburdened with clients that they cannot provide technical assistance at a level adequate to help individuals start, expand, or stabilize their businesses. Both the EDA and SBA play an important role in small business lending. Both the EDA and SBA should be maintained, funded at higher levels, and given specific rural portfolios.

Regional and land-grant universities have major roles to play in rural economic development. Both types of universities should be linked to program and business development as well as to policy research and to federal funding for rural development projects.

Exporting products should be an opportunity available to rural and urban populations. Information about exporting is generally conveyed at the state level, yet less than half the states in the country have programs to assist those citizens interested in exporting. Most largely rural states cannot afford state staff to provide this service, and Commerce trade offices are so far away from rural America that they cannot be helpful. The federal government needs to find a way to fill this need.

Because federal programs are essential to rural development, federal policy makers must consider a new approach to how to integrate, design, and implement rural development policies and programs. The fact that existing programs are scattered among various agencies dilutes their impact. Bringing all the programs together under one roof would be an important and essential first step. Some feel that a new rural development department should be created, but the creation of another bureaucracy may not be the best response. Others suggest that the existing programs be placed under the leadership of the Department of Agriculture. This is also an inappropriate response. For generations, federal farm policy has been confused with and perceived as the keystone of rural economic development in this country. The development of America's rural areas has to be removed from the USDA context and based on the diversification and development of all local resources.

It makes sense to create a major rural development component within the Commerce Department, where much of the country's economic and trade policy is planned and implemented. The new division should be headed by a deputy secretary and integrate the programs which are now scattered among other departments. Last year, $26 billion was spent by the federal government for commodity programs. Transferring a portion of these funds to a rural development initiative would pay longer term dividends than support programs. Pulling together existing rural development programs and pooling funding should result in economies. However, merely shifting people, programs, and existing dollars should not be considered a panacea.

A federal rural development commission should be created and empowered to work toward the establishment of a comprehensive national strategy, initially working with interagency task forces to inventory and assess the success of all programs affecting rural America. The Commerce Department should receive the commission's recommendations and then build new rural policy and programs.

There are potential problems in placing a major new rural development effort at Commerce if the policies of the current administration continue. EDA and SBA, both part of Commerce, should be major components of a rural economic development program, yet both have been severely cut by this administration. Commerce is generally viewed as the department most concerned with big business but should be the locus of business and economic development policy and programs for businesses of all sizes in both metro and nonmetro areas. If this broadened geographic base and equal access to economic development programs are not adopted, then there is no choice but to create a new, freestanding rural development agency.

Policies and funding to support rural small businesses and economic diversification should include:

-- Programs that capitalize or recapitalize loan funds for equity and debt capital;

-- A technical assistance infrastructure that can provide expertise from marketing to management for rural small businesses;

-- A method of paying for the involvement of regional universities in local small business development activities and community economic development;

-- Funding for research on and support for economic diversification, value adding to existing resources, and new manufacturing systems (e.g., regional manufacturing networks);

-- Methods of dealing with policy issues facing small business owners, from benefits for themselves and their employees to taxation;

-- Regulatory policies that create equitable treatment of rural areas in banking, telecommunications, and transportation; and

-- Assistance with export trading activities.

Policy and programs should be designed so that states become partners with the federal government in rural development.

Governors and legislatures have the ability to take control of their states' economies. States should be encouraged to implement rural development programs that complement federal programs. Federal support for these efforts is critical, as states that are most in need are unable to raise or levy more tax monies. The new federalism can be applied to rural development, but it requires national leadership as well as local initiative.

While there are distinct roles for federal and state governments to play as funders and policy makers for economic development, new methods of service delivery must be created. These call for public-private partnerships. For example, technical assistance for small businesses could be provided by nonprofits staffed by experienced, qualified personnel, at community levels or on a regional basis when towns are too small to support a community-based economic development effort.

Government policy should provide new, alternate approaches to rural development, supporting local institutions and human and physical infrastructure. At community, regional, state, and federal levels, economic and human development policy and programs have to be intertwined.

Many question whether special efforts should be made to save rural America; without these efforts and changes in policy, the disintegration of rural America's physical and human infrastructure will continue unabated. The lack of economic opportunity facing rural areas affects the health and stability of individuals, families, and communities. A significant portion of America's population is now being left behind. Social ills and the general stunting of human potential cannot adequately be alleviated without addressing the need of people to work and find meaning in their work. Rural America suffers from federal neglect. The next administration can correct this inequity.

Barbara H. Henrie is Senior Program Officer at the Northwest Area Foundation where she is responsible for economic development grantmaking and program design including economic and resource diversification (community economic development) and support for small business (technical assistance intermediaries, financing mechanisms, research, marketing, university programs). In all these areas, Ms. Henrie works with state and local governments, nonprofit organizations, and agencies involved in economic development policy. The Foundation covers eight states with largely rural populations: Minnesota, Iowa, North and South Dakota, Montana, Idaho, Oregon, and Washington.

Prior to joining the Foundation, Ms. Henrie was director of exchange programs at the German Marshall Fund of the United States, which seeks to transfer good programs from one side of the Atlantic to the other as well as to improve understanding between leaders. Her focus ranged from public policy and economic development programs to international security issues.

Ms. Henrie also gained hands-on small business experience through the establishment and ten-year management of her own business in Newport, Rhode Island.

Senator BAUCUS. Thank you.

Bob, I wonder if we could just flesh out some of the preliminary thoughts that you mentioned concerning transportation, telecommunications, and especially capital. Then I'll ask you about industrial extension.

What, in your view, may be the next steps to help advance some of your ideas.

Mr. BERGLAND. Well, I think we need Federal programs, Mr. Chairman. I heard our good friend Jim Abdnor say there were 700 programs in the Federal structure to deal with development, which may be low.

The problem is that they are so complex, so disorganized, and each has its own narrow focus and objective. I think the whole thing needs to be changed. I am not very high on categorical lending and funding.

I am much higher on providing some latitude and discretion so the community can use the moneys for the purposes that they determine to be more important and appropriate. And we have found time and again that there may be money available for a certain function, but not for another function, and the community needs the other function, and they say you have got to get in line.

The extent to which these programs can be put into some kind of a general contribution to be used by the community for its development strategies, the more effective these things will become.

The simpler they can be made, the better. I think there needs to be consolidation of agencies and functions—there are far too many—and put under the control of a Cabinet official.

I am not in favor of coordinating committees. They have got to run money, they have got to be in charge of budgets and persons to be effective. And so we are in the process of looking at this general matter, and we are not ready with recommendations this year. We are kind of waiting until the new President comes to town and we can work with him or her—I guess it will be him—and develop a program that does indeed meet the needs of the communities in the eighties and beyond.

What is significant and what has been mentioned here and before today is that rural America is no longer tied to farming. 50 years ago, we had 8 million families; all farmed and ranched. Now only 1 million of our members farm and ranch.

We have 7 million wage-earners, and their jobs are tied internationally in some way or another. And so the need for telecommunications is enormous. They have got to know what is happening in the outside world, and we have got to provide it to them in some fashion or form.

We can do it within the authorities of the rural electric program, but we need help. We need money help mainly, and technical assistance.

The business of training is something that is being worked on in different places in States. The Southern Growth Policies Board, I think it is called, out of North Carolina, is working with local community colleges. It is an experimental program in the southern region, and it seems to have great promise.

The State of North Carolina is working through the State university, again with the local community colleges. It seems to work.

The State of Michigan, on the other hand, is organizing an industrial extension service through the university, primarily for the businesses associated with the reformed auto industry.

There are all kinds of things happening in the States, and I think a survey of what is happening ought to be undertaken and again determine what is an appropriate Federal role to help support these functions.

That is in a nutshell, Mr. Chairman.

Senator BAUCUS. Well, you mentioned that deregulation of the financial services industry and interstate banking has sucked capital from rural areas, and I think that is basically true.

How do we get the capital back?

Mr. BERGLAND. I do not know how we get private capital back. I will be honest about it. I do not know enough about this. But I do believe that there is a Federal role in guarantees, if this is what it is going to take to bring money back.

People say, well, the risk is too great to invest in Wolf Point, MT. They can go to some place in California that they thought was safe. It used to be savings and loan associations. They have discovered that that is no longer the safe haven, either.

But I think we need to have a public presence in this field. It is clear that the competitive marketplace is not going to fill that void. And so a loan guarantee is probably the easiest way of doing it. It is easier than a Federal appropriation.

But they need to be guaranteed for a purpose, and especially for water systems, sewer systems, infrastructure, highways, and public buildings. There is no way these things can get financed privately.

Senator BAUCUS. That is an excellent point. This may be a bit dramatic, but it occurred to me that the next inaugural address that the next President gives will be one of the more important inaugural addresses in the last 40, 50 years, because of the onslaught of international competition and the decline of the infrastructure in America generally.

In a certain sense, the problem we are addressing today is a microcosm—sort of a subset of a bigger American problem worldwide. The United States is experiencing big problems in competing with other countries. I think the laissez faire policies of the last decade, while they have merit, as documented in the international trade policy and the financial services industry are going to lead us into more and more difficulty.

If we continue on our present course, I think we are going to sink into a deeper hole economically.

Our standard of living is going to comparatively decline. The Federal budget deficit is not going to improve. Our trade balance is not going to improve. We will be an even larger net debtor Nation, unless we, in partnership with the public sector and private sector, begin to work better together to address these problems.

Mr. BERGLAND. I think we are living in a fool's paradise. It cannot go on this way, and the only way we are ever going to get it turned around is to increase productivity in the United States and regain our competitive advantage that we have piddled away, and be able to export more than we import.

The only way we will do that is to improve worker productivity and investment in places, both urban and rural. And it is not being done, and so it becomes a matter of great importance to the Nation and its long term economic and political security.

The United States is being sold out an inch at a time. The Japanese are taking up their trade advantage and taking it out in trade. They are buying U.S. real estate and businesses.

This cannot go on forever. And the only way we are going to recover our own control is to improve our productivity. That is going to take investment, and there is a limit to what the private sector can do in this regard.

Senator BAUCUS. You are absolutely right. I very much agree.

Do any of you have anything else you want to say? Did anybody make an outrageous statement that you think should be corrected?

[No response.]

Senator BAUCUS. Well, if not, I want to thank you very, very much for the time you have taken. You have been a terrific help and a major contribution.

Thank you.

[Whereupon, at 4:30 p.m., the Subcommittee was adjourned.]

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